CITY OF WATAUGA
ANNUAL COMPREHENSIVE FINANCIAL REPORT

FISCAL YEAR ENDING
SEPTEMBER 30, 2025

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City of Watauga, Texas

Annual Comprehensive Financial Report

For the Fiscal Year Ended
September 30, 2025

Prepared By
The City of Watauga
Finance Department

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City of Watauga, Texas

Annual Comprehensive Financial Report
For the Fiscal Year Ended September 30, 2025
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Introductory Section

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March 4, 2026

TO: Honorable Mayor Arthur L. Miner and
Members of the City Council
Citizens of the City of Watauga, Texas

The City Manager's Office and Finance Department are pleased to submit the Annual Comprehensive Financial Report (ACFR) for the fiscal year ending September 30, 2025. We encourage review and discussion of the information presented.

Audit and Reporting Requirements

In accordance with City Charter Section 9.06(C) and bond covenants, the City Council is required to obtain an independent audit each fiscal year:

> "At the close of each fiscal year, and at such time as it may be deemed necessary, the Council shall cause an independent audit to be made of all accounts of the City by a certified public accountant..."

Financial statements are prepared in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with generally accepted auditing standards. The City is responsible for the accuracy and completeness of this report.

Independent Audit
Weaver and Tidwell, L.L.P. conducted the audit. The objective was to provide reasonable assurance that the financial statements are free of material misstatement. The audit included:

Examining evidence supporting amounts and disclosures
Assessing accounting principles and management estimates
Evaluating overall financial statement presentation

The independent auditors issued an unmodified ("clean") opinion for the fiscal year ended September 30, 2025, that statements are fairly presented in conformity with GAAP. The independent auditor's report is located at the front of the financial section of this report. The City's Audit Committee, a subcommittee of the City Council, reviews all recommendations made by the independent auditors.

Management Discussion & Analysis
Management's discussion and analysis (MD&A) is presented after the independent auditor's report and provides a narrative analysis of the basic financial statements. This transmittal letter complements the MD&A and should be read in conjunction with it.

The City is not financially accountable for Birdville and the Keller Independent School Districts (ISDs), therefore, financial data for the school districts are not included in this report.

Profile of the City of Watauga, Texas

Watauga is in Tarrant County, approximately 10 miles northeast of Fort Worth and 25 miles northwest of Dallas with a corporate area of 4 square miles, a 2020 Census population of 23,650 and January 2025 estimate (North Central Texas Council of Governments) of 23,806. The City is approximately 96% built out.

Form of Government
Watauga Adopted a Home Rule Charter January 19, 1980 and operates under a Council-Manager form of government. While the City Manager oversees daily operations, the eight-member Governing Body (including the Mayor) adopts ordinances and policies, approves the budget, and appoints key officials.

Services Provided
Major services under general government and enterprise functions include:

- Police and fire protection,
- Emergency ambulance service,
- Street and drainage improvements,
- Developmental services,
- Water and sewer services,
- Library services,
- Park and recreational activities, and
- General administrative services.

Solid waste and recycling services are provided through franchise agreements.

Accounting and Budgetary Controls

The City's accounting records for general government operations are maintained on a modified accrual basis where revenues are recorded when available and measurable and expenditures are recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's proprietary activities are maintained on an accrual basis.

As of September 30, 2025, there are 34 total funds and 17 funds reported after combining smaller funds. Note 1 provides detailed fund descriptions.

Internal Controls
Management maintains a comprehensive internal control framework designed to safeguard assets from loss, prevent misuse, reduce the risk of theft, and ensure reliable financial reporting.

Internal controls provide reasonable assurance, not absolute assurance. Management asserts the financial report is complete and reliable in all material respects.

Budget Process
The Charter requires:

- Proposed budget submitted by August 1
- Adoption by September 15

The budget process, using fund accounting, includes:

- Revenue and expenditure projections
- 5-Year Capital Improvement Plan (CIP) review
- Adjustments to ensure a balanced budget

Throughout the year Council and staff monitor the financial performance with the City Manager being able to authorize the transfer of appropriations within departments and interdepartmental transfers done upon approval of Council via ordinance. Financial reports are provided to Council Monthly

Economic Outlook and Financial Condition

Regional Economy

In 2025, the Dallas–Fort Worth region (The Metroplex) added 234,125 people for a population over 8.3 million. Unemployment remained steady near 4.1–4.2% with slower job growth (.3% vs. 1.0% prior year), according to the Federal Reserve Bank of Dallas as shown in the chart below.

DFW economy dashboard (August 2025)			
Job growth (annualized) May–Aug. '25	Unemployment rate	Avg. hourly earnings	Avg. hourly earnings growth y/y
0.3%	4.1%	$36.39	4.2%

The Dallas–Fort Worth economy expanded in August. Employment growth was strong, while unemployment increased sharply. Hourly earnings were flat but remained higher than figures for the state and nation and above year-ago levels. DFW sales tax collections held steady. Home sales fell, while apartment rents were flat.

The Metroplex has a Gross Domestic Product of $767 billion. There are 21 Fortune 500 companies and four major corporate headquarters in the Metroplex. College enrollment is over 385,000.

Major economic drivers include Dallas–Fort Worth International Airport (50th anniversary in 2024), which supports 684,000 jobs and contributes over $18 billion to the economy (SOURCE: DFW website www.dfwairport.com Fast Facts.)

Alliance Texas Development is a 27,000-acre master-planned community home to 590+ companies and 66,000+ jobs (SOURCE: www.alliancetexas.com, Alliance Texas Facts.)

Local Financial Condition
FY2025 Highlights include a certified taxable value of $2.53 billion (up 7.3% over prior year), sales tax receipts: $7.76 million (and increase of approximately $85,000 or 1.1%)

Development completed in 2024-2025 include: Bursey Townhomes development (61 single family homes) and Hightower Estates (66 single family homes).

Additional commercial developments are under construction.

Outlook

Through December 2025, sales taxes increased by .38% compared to the prior year and property valuations increased approximately 1.3%. New residential development includes 260 homes with an estimated $600,000 in property tax revenue over several years.

Strategic Initiatives adopted by Council focus on:

- Maintaining financial strength
- Sustainable economic development efforts
- Strengthen long-range planning

New development in Watauga is expected to be minimal, and the city has entered a phase where revenue growth will be slow, while requests for services and infrastructure replacement for streets and utility needs will increase. The near build-out status of the city requires a strategic approach to attracting new development and revitalization. Strategic initiatives adopted by the Council include maintaining the financial strength of the City, developing a sustainable economic development effort through business retention and attraction efforts, and strengthening future planning.

Long-Term Financial Planning

The City Council has adopted a series of financial standards and policies for operating and debt management. Leadership has made every effort to comply with these standards and policies including a fund balance at or above the minimum 25% of the General Fund expenditure budget (currently 42%) .

Long-term financial planning tools include:

- 5-year Capital Improvement Plan for current and future infrastructure projects.
- 5-year Capital Outlay Plan for major equipment, vehicles, and technology purchases
- 5 -year Personnel Enhancement Plan
- 5-year Financial Forecast
- Succession Plan

Long-term planning has provided for major infrastructure upgrades, park enhancements, capital purchases, and personnel while considering the full impact to the operating budget and tax implications.

Standard & Poor's Rating Services, a subsidiary of the McGraw-Hill Companies, Inc. rates the City's general obligation debt at AA. Moody's Investor Service, Inc. rates the general obligation debt at Aa3. Additional information about the rating agencies or the significance of the ratings provided may be obtained from each agency's web site.

Major Initiatives

The city continues to focus on maintaining and upgrading infrastructure. These include:

- Whitley Road, Phase 5
- Hightower Road
- Watauga Road
- Water and wastewater improvement projects.

The Parks Master Plan focuses on improving park amenities, trails, and facilities.

Projects funded by the Economic Development Corporation include the design and construction of a food truck park, to spur economic development and entrepreneurship in the city.

Awards and Recognition.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga, for the 37th year, for the fiscal year ended September 30, 2024. This recognizes conformance with the highest standard for preparation of state and local government financial reports. This report must satisfy both generally accepted accounting principles and applicable legal requirements and be reader friendly and efficiently organized.

For the 36th year, the City of Watauga also received the GFOA's Distinguished Budget Presentation Award for the budget document for the fiscal year ended September 1, 2025. The budget document was deemed proficient as a policy document, a financial plan, an operations guide, and a communications device.

Closing

We thank the City Council for its continued leadership and support and recognize the dedication of City employees whose work ensures responsible financial management and completion of this report. We wish to express our appreciation to each City employee for his or her loyalty and dedication, as demonstrated during this past fiscal year.

Respectfully submitted,

Sandra Gibson
City Manager

Jennifer Calvert (Mar 4, 2026 15:38:16 CST)
Jennifer Calvert
Director of Finance

City of Watauga, Texas
Principal Officials
As of September 30, 2025

Elected Officials	Position	Term Expires
Arthur L. Miner	Mayor	2028
Patrick Shelbourne	Council Member Place 1	2026
Cris Blackburn	Mayor Pro Tem/ Council Member Place 2	2026
Lovie Downey	Council Member Place 3	2028
Andrew Neal	Council Member Place 4	2028
Malissa Minucci	Council Member Place 5	2028
Mark Taylor	Council Member Place 6	2026
Jan Hill	Council Member Place 7	2026

Appointed Officials	Position
Sandra Gibson	City Manager
David Berman	City Attorney
Linda Proskey	City Secretary
Jennifer Calvert	Director of Finance
Jim Lewis	Police Chief
Randy Barkley	Fire Chief
Paul Hackleman	Public Works Director
Julie Rodriguez	Director of Human Resources & Civil Service
Lana Ewell	Library Director
Timothy Hamilton	Parks and Community Services Director

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Watauga
Texas

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

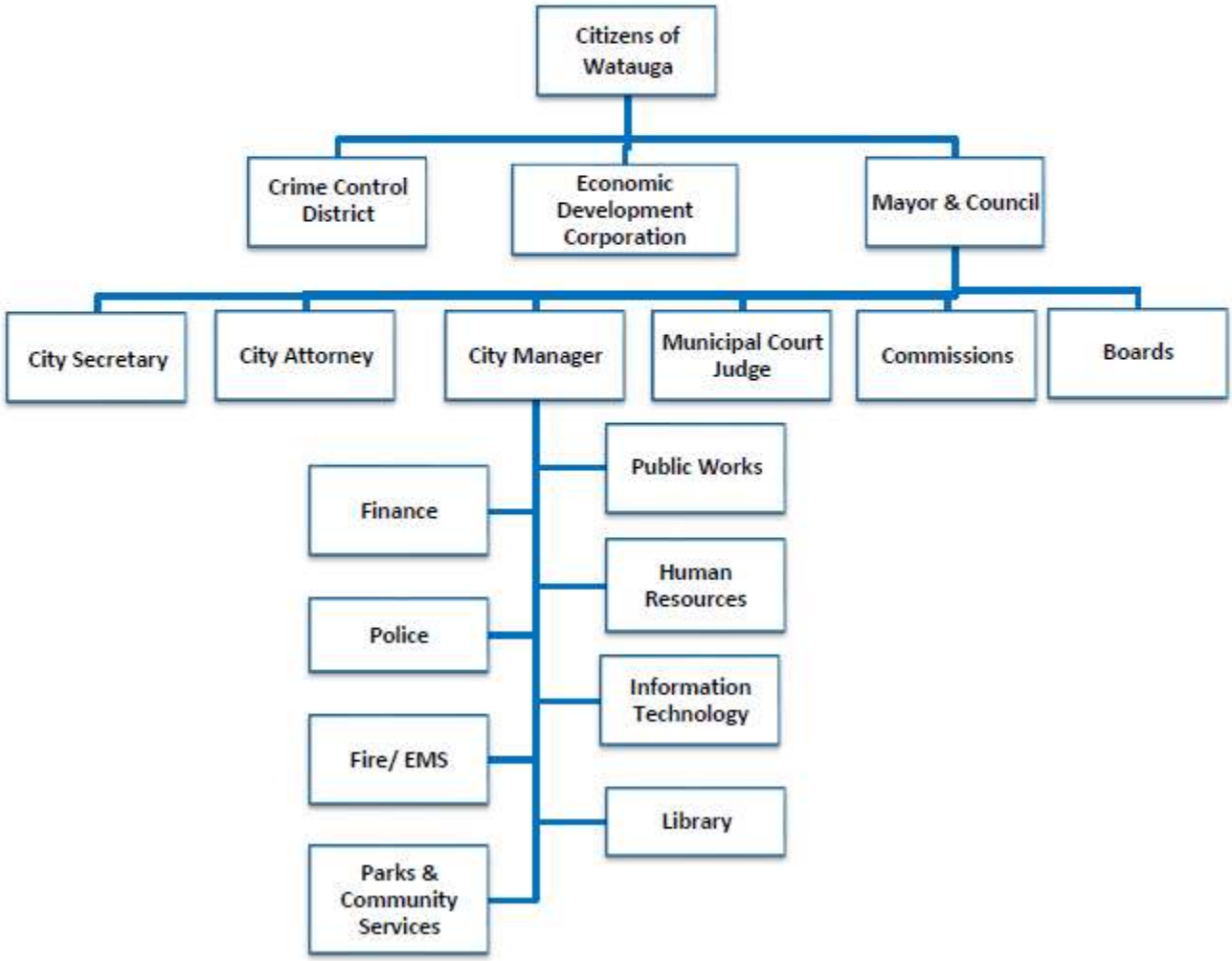
September 30, 2024

Christopher P. Morrill

Executive Director/CEO

Organizational Chart

City of Watauga



Financial Section

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2821 West 7th Street, Suite 700
Fort Worth, Texas 76107
817-332-7905

Independent Auditor's Report

To the Honorable Mayor and
Members of City Council
City of Watauga, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watauga, Texas (the "City"), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Texas Municipal Retirement System pension schedules, Texas Municipal Retirement System OPEB schedule, and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report (ACFR)

Management is responsible for the other information included in the ACFR. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 4, 2026

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On behalf of City Council, the City of Watauga leadership provides this narrative overview and analysis of the financial activities and financial position of the city for the fiscal year (FY) ended September 30, 2025. The financial well-being of the City of Watauga is reflected in both the strength of its underlying tax base and the disciplined stewardship of public resources by its elected and appointed leadership. Sustained property value growth, stable sales tax performance, and conservative revenue forecasting continue to support the City's financial position.

Financial reporting focuses on financial position and changes in financial position from year to year. Are revenues and/or expenditures higher or lower than the previous year? Have net position or fund balances of the government been maintained?

Revenues for governmental activities (not including water/sewer or transfers) in FY 2025 total $29.9 million compared to $26.8 million in FY 2024.

Expenditures on governmental activities increased to $26.3 million in 2025 compared to $24.8 million in 2024.

For fiscal year 2025, the City experienced an increase in total net position of $6,151,612, reflecting positive operational results in both governmental and business-type activities, as shown below.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Total net position	$ 62,646,760	$ 58,082,760	$ 40,746,945	$ 39,159,333	$ 103,393,705	$ 97,242,093

Governmental funds ended the year with a combined fund balance of $44,322.863, including $9,409,816 in unassigned/unrestricted fund balance available to address future needs and contingencies. These results demonstrate the City's commitment to maintaining adequate reserves while meeting service demands.

In addition, the City's investment in capital assets increased to $105,052,678 (net of depreciation), as shown below, driven by continued progress on major infrastructure projects, including street rehabilitation and water and wastewater system improvements. These investments support long-term service delivery and economic stability while preserving the City's infrastructure for future generations.

Schedule of Capital Assets (Net of Accumulated Depreciation/Amortization)

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Total capital assets	$62,949,144	$ 59,008,106	$42,103,534	$ 42,615,064	$105,052,678	$101,623,170

Collectively, these indicators reflect a balanced financial strategy—one that prioritizes operational stability, responsible debt management, and strategic capital investment to ensure the City remains financially sound not only for the current fiscal year, but well into the future.

Readers should consider the information presented in this document in conjunction with the Letter of Transmittal and the Statistical Section which can be found on pages v-ix and pages 94-114 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at www.cowtx.org. Please note that the auditor's association with the various sections of this report is found in the Report of Independent Auditors. All the additional information from the website and other City sources is unaudited.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serve as an introduction to the City of Watauga's basic financial statements. The City's basic financial statements are comprised of three components:

1) government-wide financial statements,

2) fund financial statements, and

3) notes to the financial statements.

This report also contains other supplementary information.

Government-wide Financial Statements – The government-wide financial statements provide a comprehensive overview of the City of Watauga's overall financial position and operations, presented in a manner like a private-sector business.

The *Statement of Net Position* reports all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reflected as net position. Changes in net position over time serve as a key indicator of whether the City's financial condition is improving or declining. As mentioned previously, For fiscal year 2025, the City experienced an increase in total net position of $6,151,612.

The *Statement of Activities* illustrates how net position changed during the fiscal year. Revenues and expenses are recognized when the underlying event occurs, regardless of when cash is received or paid. As a result, this statement includes items that will impact cash flows in future periods, such as uncollected taxes and earned but unused compensated absences.

Both government-wide financial statements distinguish functions of the City of Watauga that are:

1) principally supported by taxes and intergovernmental revenues (governmental activities), and

2) functions that are intended to recover all or a significant portion of their costs through user fees and charges (proprietary or business-type activities).

The governmental activities of the City include:

- General Government,
- Police,
- Fire/EMS,
- Culture and Recreation, and
- Public Works.

The proprietary or business-type activities of the City include Water/Sewer and Drainage System activities.

The government-wide financial statements include the City of Watauga (the "primary government"), and its component units: the Watauga Economic Development Corporation (WEDC) and the Watauga Crime Control and Prevention District (WCCPD). Although legally separate entities, these organizations are financially accountable to the City and are therefore included in the reporting entity.

The financial activities of these component units are presented using a blended presentation. Separate financial information for each component unit is available from the City upon request.

The government-wide financial statements can be found on pages 19-20 of this report.

Fund Financial Statements – A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to comply with finance-related legal requirements. All the funds of the City can be divided into three categories: (1) governmental, (2) proprietary, and (3) internal service.

Governmental Funds – Governmental Funds – Governmental funds report substantially the same functions as the governmental activities presented in the government-wide financial statements. However, unlike the government-wide statements, governmental fund statements focus on near-term inflows and outflows of spendable resources and the balances available at year-end. This perspective is useful in evaluating the City's short-term financing needs and budgetary compliance.

Because governmental fund statements emphasize short-term resources, while government-wide statements present a long-term view, it is helpful to compare the two presentations. Such comparisons provide insight into the long-term effects of current-year financing and spending decisions.
To assist readers, both the Governmental Fund Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances include reconciliations to the governmental activities reported in the government-wide financial statements.

The City maintains fifteen (15) governmental funds. The General Fund, Debt Service Fund, Capital Projects Fund, and COVID-19 Grant Fund are reported separately as major funds in the Governmental Fund Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

The remaining eleven (11) governmental funds are presented in a single aggregated column as non-major funds. The City adopts an annual appropriated budget. For the nine non-major funds for which a budget is adopted, a budgetary comparison schedule for the governmental funds is included to demonstrate compliance with the legally adopted budget.

The basic governmental fund financial statements can be found on pages 23-26 of this report.

Proprietary Funds – The City maintains two major proprietary or enterprise funds. The enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. These funds account for Water/Sewer and Drainage activities. Internal Service Funds are used to accumulate and allocate costs for some equipment replacement. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide more detailed information than the government-wide financial statements. The proprietary fund financial statements provide separate information for Water/Sewer and Drainage (major funds). The Internal Service Fund is a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 29-32 of this report.

Notes to the financial statements – The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes on the financial statements can be found on pages 33-66 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits (OPEB) to its employees. Required Supplementary Information (RSI) can be found on pages 68-73 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combined individual fund statements and supporting schedules can be found on pages 76-90 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total Assets of the City are $177,755,111 with Capital Assets, net of depreciation, representing 59.1% ($105,052,678) of the total. Capital assets include land, buildings, improvements, equipment, infrastructure, and construction-in-progress and are not available for future spending. Capital assets are used to provide services to citizens.

As noted earlier, Net Position may serve as a useful indicator of a government's financial position. As of September 30, 2025, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $103,393,705 (Net Position).

At year end, the City's Net Investment in Capital Assets was $84,673,800. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided by other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position is $6,282,499 or 6.1% of total net position and represents resources that are subject to external restrictions on how they may be used. The remaining balance of total net position is unrestricted ($12,437,406 or 12.0%) and may be used to meet the government's ongoing obligations to citizens and creditors.

Overall, there was an increase of $6,151,612 in total net position during the fiscal year because of the City's operations. Governmental activities showed an increase of $4,564,000, while Business-type activities showed an increase of $1,587,612 because of the City's operations.

Condensed Statement of Net Position

As of September 30, 2025, the City reports positive balances in all three categories of net position: the primary government, its separate governmental, and business-type activities.

Effective October 1, 2021, the City implemented GASB no. 87. Assets related to this implementation are included in the current and other assets in the table below.

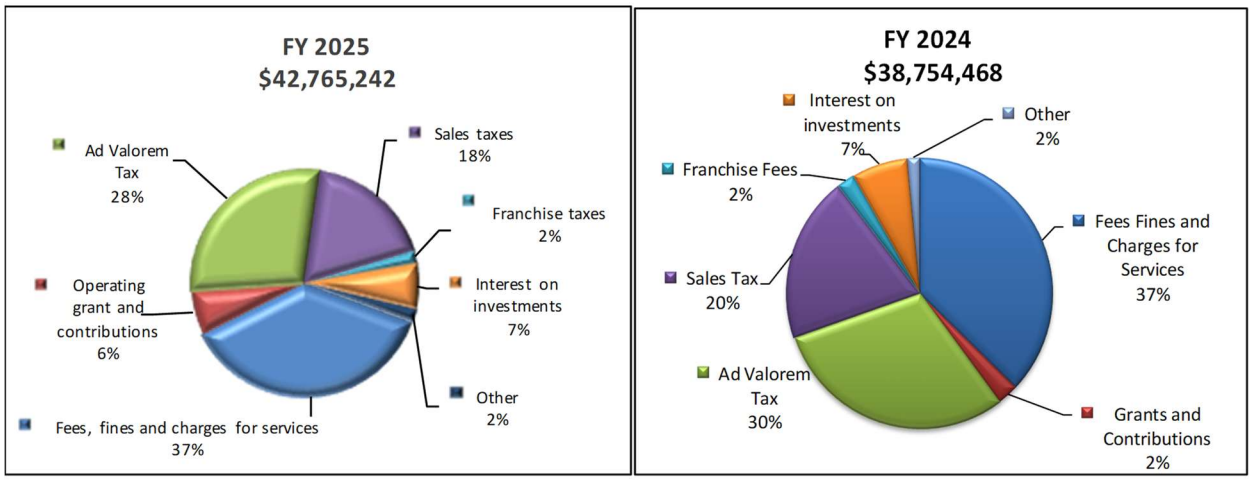
As shown in the table below, the governmental activities had an increase in net position of $4,564,000 ($62,646,760 in 2025 and $58,082,760 in 2024). In FY 2025 revenues were $29,983,160, an increase of $3,088,559 over FY 2024. Expenses increased $1,550,028 to $26,365,161 in FY 2025.

For business-type activities, net position increased by $1,587,612 to $40,746,945. Revenues for the current year are $12,782,082, up from $11,859,867. Expenses decreased to $10,248,469, down from $10,280,764. This information is shown on the table below.

Condensed Statement of Net Position	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current and other assets	$ 49,555,702	$ 44,235,778	$ 23,146,731	$ 20,445,751	$ 72,702,433	$ 64,681,529
Capital assets	62,949,144	59,008,106	42,103,534	42,615,064	105,052,678	101,623,170
Total assets	**112,504,846**	**103,243,884**	**65,250,265**	**63,060,815**	**177,755,111**	**166,304,699**
Deferred outflows of resources	2,417,449	3,890,284	460,467	741,006	2,877,916	4,631,290
Long-term liabilities outstanding	48,054,328	43,508,613	22,361,679	22,668,767	70,416,007	66,177,380
Other liabilities	2,934,470	4,755,682	2,357,015	1,823,794	5,291,485	6,579,476
Total liabilities	**50,988,798**	**48,264,295**	**24,718,694**	**24,492,561**	**75,707,492**	**72,756,856**
Deferred inflows of resources	1,286,737	787,113	245,093	149,927	1,531,830	937,040
Net position:						
Net investment in capital assets	53,573,466	47,627,375	31,100,334	30,263,233	84,673,800	77,890,608
Restricted	6,282,499	6,035,931	-	-	6,282,499	6,035,931
Unrestricted	2,790,795	4,419,454	9,646,611	8,896,100	12,437,406	13,315,554
Total net position	**$ 62,646,760**	**$ 58,082,760**	**$ 40,746,945**	**$ 39,159,333**	**$ 103,393,705**	**$ 97,242,093**

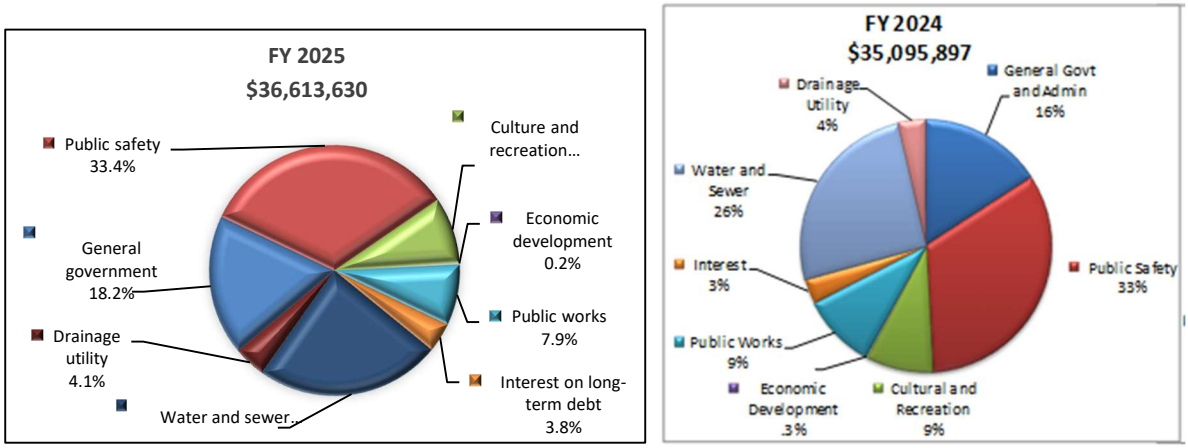
Changes in Net Position - Revenue by Major Category
Governmental and Business-Type Activities (excluding transfers)

In FY 2025, revenues city-wide increased by $4,010,775 to $42,765,242 from $38,754,468 FY 2024. The chart below shows the breakdown of revenue by type in FY 2025 compared to FY 2024.



Changes in Net Position - Expense by Major Category
Governmental and Business-Type Activities (excluding transfers)

In FY 2025, expenses city-wide increased by $1,517,733 to $36,613,000 from $34,937,853 FY 2024. The chart below shows the breakdown of expenses by type in FY 2025 compared to FY 2024.



Governmental activities – Governmental activities had a total increase in net position of $4,564,000 or 7.9 % from the prior year. Key elements of activity changes from the prior year are as follows:

- Total revenues increased by $3.09 million or 11.5% from the prior year. Operating grants increased by $1,726,065 due to higher grant activity related to the American Rescue Plan Act than the prior year. Property taxes increased $503,886 due to an increase in assessed property valuations. Sales tax revenues increased 1% compared to the prior year. Fees, fines and charges for service increased by $685,395 due to development and court activity. Interest income decreased by $76,457, or 4% due to fluctuations in interest rates.

- Expenses increased by $1.6 million, or 6.2%, primarily due to changes in personnel costs, filling vacant staff positions, and other operational costs. Culture and recreation expenses increased by $102,597, or 3.4% due to reinstatement of staffing and programs from prior years. Additionally, Public Safety expenditures increased by $521,919, or 4.5% due to salary increases and filling vacant positions. Interest on long term debt increased by $272,983 due to the 2024 debt issuance.

Business-type activities – Business-type activities increased the City's net position by $1,587,612, or 4.1% from the prior year. Significant changes from the prior year include:

- Increase in total revenues of $922,215 due to increased water and sewer revenues and an increase in the interest earnings on investments compared to prior year.

- Decrease in total expenses of $32,295. Water and Sewer decreased by $265,961 due to decreases in wastewater treatment and other operational costs compared to the prior year. The Drainage utility expenses increased by $233,666 due to increases in operational expenses.

The following table provides a summary of the City's operations for the year ended September 30, 2025, with comparative totals for year ended September 30, 2024.

Condensed Statement of Change in Net Position

	Governmental Activities		Business-type Activities		Total	
Revenues	2025	2024	2025	2024	2025	2024
Program revenues						
Fees, fines and charges for services	$ 3,939,849	$ 3,254,454	$11,904,017	$11,166,947	$ 15,843,866	$14,421,401
Operating grant and contributions	2,714,716	988,651	-	-	2,714,716	988,651
General revenues						-
Property Taxes	12,100,466	11,596,580	-	-	12,100,466	11,596,580
Sales taxes	7,758,756	7,684,529	-	-	7,758,756	7,684,529
Franchise taxes	824,333	840,843	-	-	824,333	840,843
Payment in lieu of taxes	561,000	503,000	-	-	561,000	503,000
Penalties and interest	64,170	49,195	-	-	64,170	49,195
Interest on investments	1,850,124	1,926,581	878,065	692,920	2,728,189	2,619,501
Miscellaneous	169,746	50,768	-	-	169,746	50,768
Total revenues	**29,983,160**	**26,894,601**	**12,782,082**	**11,859,867**	**42,765,242**	**38,754,468**
Expenses						
General government	6,660,463	5,554,741	-	-	6,660,463	5,554,741
Public safety	12,217,296	11,695,377	-	-	12,217,296	11,695,377
Culture and recreation	3,123,379	3,020,782	-	-	3,123,379	3,020,782
Economic development	88,892	87,910	-	-	88,892	87,910
Public works	2,878,000	3,332,175	-	-	2,878,000	3,332,175
Interest on long-term debt	1,397,131	1,124,148	-	-	1,397,131	1,124,148
Water and sewer	-	-	8,748,838	9,014,799	8,748,838	9,014,799
Drainage utility	-	-	1,499,631	1,265,965	1,499,631	1,265,965
Total expenses	**26,365,161**	**24,815,133**	**10,248,469**	**10,280,764**	**36,613,630**	**35,095,897**
Increase (decrease) in net position before transfers	3,617,999	2,079,468	2,533,613	1,579,103	6,151,612	3,658,571
Transfers	946,001	679,000	(946,001)	(679,000)	-	-
Increase (decrease) in net position after transfers	4,564,000	2,758,468	1,587,612	900,103	6,151,612	3,658,571
Net position - beginning of year	58,082,760	55,324,292	39,159,333	38,259,230	97,242,093	93,583,522
Net position - end of year	**$62,646,760**	**$ 58,082,760**	**$40,746,945**	**$39,159,333**	**$103,393,705**	**$97,242,093**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As previously noted, the City uses fund accounting to comply with finance-related legal requirements.

Governmental Funds – The City's governmental funds report near-term inflows and outflows of expendable resources and the balances available at fiscal year-end. This information assists in assessing the City's short-term financing needs and overall budgetary position.

Unassigned fund balance represents the portion of fund balance available for discretionary spending and may serve as a useful indicator of the City's financial flexibility at year-end.

At the end of the current fiscal year, the City of Watauga's governmental funds reported a combined ending fund balance of $44,322,863, up $7,321,947 primarily due to debt issuance in the capital projects fund. Unassigned fund balance is $9,409,816 or 21.2% of the total governmental fund balance and is available for spending at the government's discretion.

The remainder of fund balance is in the form of:

1) non-spendable inventory ($20,494) and prepaid items ($16,567),
2) restricted for capital acquisitions and contractual obligations ($28,536,486), retirement of fund indebtedness ($1,325,603), culture and recreation ($243,490), economic development ($3,304,574), public works ($6,637) and public safety ($1,459,196).

Highlights include:

- Fund balance for the General Fund (primary operating fund) decreased by $143,713 to $9,446,427 over the prior year. This was due to city-wide increases in personnel costs.

- The Debt Service fund balance increased by $101,899 over the prior year, to $1,325,603 because of increased property tax receipts.

- The Capital Projects fund experienced an increase of $7,225,108, which was due to the combined issuance of debt in the amount of $8.7 million and interest income of $987,780, which was offset by capital outlay expenditures in the amount of $3,614,798 million. Fund balance at the end of the year is $28,490,511.

- The non-major governmental funds showed a combined $138,653 increase in fund balance from the prior year due to various fund activities. Fund balance increased by $441,157 in the Watauga Economic Development Corporation Fund due to tax revenues. The Crime Control and Prevention District fund balance decreased by $311,171 due to increases in personnel costs and capital outlay purchases (vehicles).

Proprietary funds - The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net positions of the respective proprietary funds are Water/Sewer at $4,481,011 and Drainage Utility at $5,165,600. The proprietary funds had a combined net position increase of $1,587,612 because of operations. The Water/Sewer fund had an increase in net position of $1,596,985 while the Drainage Utility Fund had a net position increase of $30,430 because of operations. The total change in net position of business-type activities is $1,587,612 after adjustment of internal service fund activities relating to enterprise funds in the amount of ($39,803).

General Fund Budgetary Highlights – In September 2025, City Council took action to amend the budget based on staff's revised estimates of revenues and expenditures. The budget was amended to include an additional $85,000 of anticipated building permit revenues. The budget amendment for expenditures included a $57,000 for fleet maintenance expenses. Actual revenues came in $146,570 more than the revised budget, and expenditures were $211,557 less than budget due to salary savings in various general fund departments and general cost savings. The general fund balance decreased from $9,590,140 to 9,446,427, or 51% of operating expenditures.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business type activities as of September 30, 2025, amount to $105,052,678 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City's capital asset investment for the current fiscal year was $3,429,508, or 3.4%. This was primarily due to substantial progress made on the Whitley Road street project, the completion of several water/sewer projects, and the purchase of various capital outlay items.

Schedule of Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	$ 19,394,600	$ 19,394,600	$ 91,000	$ 91,000	$ 19,485,600	$ 19,485,600
Construction in progress	5,688,555	2,716,651	1,396,993	1,053,480	7,085,548	3,770,131
Buildings and Improvements	15,739,310	16,208,136	1,718,091	1,781,766	17,457,401	17,989,902
Right-to-use leased assets	296,639	375,090	7,612	15,224	304,251	390,314
Right-to-use subscription assets	58,848	81,662	-	-	58,848	81,662
Improvements other than buildings	1,272,442	666,955	-	-	1,272,442	666,955
Equipment	8,137,811	6,975,334	1,110,137	1,254,419	9,247,948	8,229,753
Drainage improvements	-	-	9,376,313	9,810,657	9,376,313	9,810,657
Infrastructure	12,360,939	12,589,678	-	-	12,360,939	12,589,678
Waterworks/sanitary sewer system	-	-	28,403,388	28,608,518	28,403,388	28,608,518
Total capital assets	**$ 62,949,144**	**$ 59,008,106**	**$ 42,103,534**	**$ 42,615,064**	**$ 105,052,678**	**$ 101,623,170**

Major capital asset events during the current fiscal year included:

- Projects that were included in Construction in Progress in FY2023-2024 which were completed this year include:
    - Sanitary Sewer Study for $224,688.
- Prior Year Projects and new projects that increased the Construction in Progress include:
    - The Whitley Road- Phase Five Project increased by $39,477, bringing the total CIP for the project to $779,412.
    - The Hightower Road project increased by $774,836, bringing the total CIP for the project to $1,567,459.
    - Business Food Truck Park Project CIP increased by $27,300 to $70,850.
    - Water/Wastewater projects increased by $350,047, bringing the total project to $1,446,837.
    - Park Vista Park project for $30,778.
    - Park Vista Stormwater Rehabilitation added this year is $166,825.
    - Tarrant County Street Overlays totaled $340,278.
    - Ambulance purchase totals $340,278.
- Other projects and equipment purchases that were completed in FY2024-2025 include:
    - Park Vista Stormwater Rehab in the amount of $623,146
    - Arcadia Trail in the amount of $259,291
    - Playground equipment at Virgil Anthony Park in the amount of $46,672
    - PA System for the Recreation Center in the amount of $36,159
    - CDBG-CV Round 4 in the amount of $348,090
    - Police Vehicles in the amount of $366,596
    - Splashpad Filtration in the amount of $180,402
    - Other Vehicles and Equipment in the amount of $589,004
    - Cardiac Monitors for $197,787
    - Building updates for $176,861

Additional information on the City's capital assets can be found in Note 4 of this report.

DEBT ADMINISTRATION

Long-term debt - At the end of the current fiscal year, the City had bonds and certificates of obligation outstanding of $55,980,000 million. This entire amount comprises debt backed by the full faith and credit of the government.

Other debt of $2,723,760 is Compensated Absences for employee earned, but unpaid, vacation and sick leave.

During the current fiscal year, the City's bonds and certificates of obligation increased by $5,300,000, which was due to an issuance of $10,225,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2025, offset by regularly scheduled debt service payments.
Standard & Poor's Rating Services, a subsidiary of the McGraw-Hill Companies, Inc. affirmed the City's general obligation debt at AA and revised the outlook from stable to positive. In their 2025 Credit Rating, S&P cited a healthy tax base growth, consistently stable operating performance, and ample reserves. Moody's Investor Service, Inc. rates the general obligation debt at Aa3.

Schedule of Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
General Obligation Bonds	$ 115,000	$ 230,000	$ 3,305,000	$ 3,925,000	$ 3,420,000	$ 4,155,000
Certificates of Obligation	35,940,000	30,525,000	16,620,000	16,000,000	52,560,000	46,525,000
Tax Notes	-	100,000	-	-	-	100,000
Lease Payable	227,583	317,968	4,487	13,261	232,070	331,229
Subscription Liability	51,833	77,053	-	-	51,833	77,053
Notes Payable	-	2,716	-	-	-	2,716
Arbitrage Liability	531,355	196,076	-	-	531,355	196,076
Compensated Absences	2,536,168	1,726,829	187,592	95,350	2,723,760	1,822,179
Unamortized Bond Premium	1,531,773	1,393,397	888,293	932,380	2,420,066	2,325,777
Total	$ 40,933,712	$ 34,569,039	$ 21,005,372	$ 20,965,991	$ 61,939,084	$ 55,535,030

Additional information on the City's long-term debt can be found in Note 5.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In Fiscal Year 2026, General Fund revenues are expected to increase approximately 4.4% from the Fiscal Year 2025. The largest revenue increases from increases in ad valorem property tax revenue, fines and forfeitures, and permit revenue. Ad valorem taxes make up 43% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, increased 1.3% for the fiscal year 2026 budget. The ad valorem tax rate for FY2026 remains at $0.5702/$100 valuation. Due to the valuation increases, this property tax rate will generate an increase in revenue for the General Fund and Debt Service Fund. Sales tax makes up 26% of the City's general operating revenue. The City has budgeted a conservative 1.5% increase in sales tax for FY2026.

The FY2025-2026 Budget focuses on managing inflationary pressures and remaining competitive in the municipal employment market; thus, operating expenditures are budgeted to increase 6.1%.

Capital projects include improvement of Whitley Road and Hightower road. Various parks projects will continue into 2025-2026. Funded with Certificates of Obligation proceeds, several major water and wastewater system projects continue for the next several years.

The Water and Sewer Operating Fund revenues have historically exceeded expenditures. Fund balance has is projected to decrease slightly from FY2024-2025 to 21% of operating expenditures. The City contracts the City of Fort Worth for wastewater treatment and has an agreement in place with North Richland Hills for wholesale water. Rate increases were implemented in Fiscal Year 2025 to cover the escalating costs of water distribution and wastewater treatment.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Director of Finance, 7105 Whitley Road, Watauga, Texas 76148, by phone at 817-514-5833, or by email at financedirector@cowtx.org.

Basic Financial Statements

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Government-Wide Financial Statements

City of Watauga, Texas
Statement of Net Position
September 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 17,218,889	$ 7,699,676	$ 24,918,565
Investments	30,132,847	13,724,027	43,856,874
Receivables, net of allowance for uncollectibles	2,166,905	1,683,437	3,850,342
Inventories	20,494	39,591	60,085
Prepaid items	16,567	-	16,567
Capital assets:			
Land and construction in progress	25,083,155	1,487,993	26,571,148
Other capital assets, net of accumulated depreciation/amortization	37,865,989	40,615,541	78,481,530
Total capital assets	62,949,144	42,103,534	105,052,678
Total assets	112,504,846	65,250,265	177,755,111
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - OPEB	156,885	29,883	186,768
Deferred outflows - pension	2,260,564	430,584	2,691,148
Total deferred outflows of resources	2,417,449	460,467	2,877,916
LIABILITIES			
Accounts payable	1,218,290	1,085,770	2,304,060
Accrued liabilities	926,718	195,421	1,122,139
Accrued interest	172,016	101,457	273,473
Customer deposits	19,879	974,367	994,246
Unearned revenue	597,567	-	597,567
Long-term liabilities:			
Due within one year	2,928,770	1,579,047	4,507,817
Due in more than one year	38,004,942	19,426,324	57,431,266
Due in more than one year - total OPEB liability	1,022,953	194,848	1,217,801
Due in more than one year - net pension liability	6,097,663	1,161,460	7,259,123
Total liabilities	50,988,798	24,718,694	75,707,492
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - OPEB	662,904	126,268	789,172
Deferred inflows - pension	623,833	118,825	742,658
Total deferred inflows of resources	1,286,737	245,093	1,531,830
NET POSITION			
Net investment in capital assets	53,573,466	31,100,334	84,673,800
Restricted for:			
Capital improvements	45,975	-	45,975
Debt service	1,222,627	-	1,222,627
Culture and recreation	243,490	-	243,490
Economic development	3,304,574	-	3,304,574
Public works	6,637	-	6,637
Public safety	1,459,196	-	1,459,196
Unrestricted	2,790,795	9,646,611	12,437,406
TOTAL NET POSITION	$ 62,646,760	$ 40,746,945	$ 103,393,705

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Activities
For the Fiscal Year Ended September 30, 2025

Functions/Programs	Expenses	Program Revenues: Fees, Fines and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business- type Activities	Net (Expenses) Revenues and Changes in Net Position: Total
Governmental activities:							
General government	$ 6,660,463	$ 518,142	$ -	$ -	$ (6,142,321)	$ -	$ (6,142,321)
Public safety	12,217,296	1,834,107	-	-	(10,383,189)	-	(10,383,189)
Culture and recreation	3,123,379	443,698	4,459	-	(2,675,222)	-	(2,675,222)
Economic development	88,892	3,138	-	-	(85,754)	-	(85,754)
Public works	2,878,000	1,140,764	2,710,257	-	973,021	-	973,021
Interest on long-term debt	1,397,131	-	-	-	(1,397,131)	-	(1,397,131)
Total governmental activities	26,365,161	3,939,849	2,714,716	-	(19,710,596)	-	(19,710,596)
Business-type activities:							
Water and Sewer	8,748,838	10,405,918	-	-	-	1,657,080	1,657,080
Drainage Utility	1,499,631	1,498,099	-	-	-	(1,532)	(1,532)
Total business-type activities	10,248,469	11,904,017	-	-	-	1,655,548	1,655,548
TOTAL GOVERNMENT	$ 36,613,630	$ 15,843,866	$ 2,714,716	$ -	(19,710,596)	1,655,548	(18,055,048)
General revenues:							
Taxes							
Property taxes, levied for general purposes					12,100,466	-	12,100,466
Sales taxes					7,758,756	-	7,758,756
Franchise taxes					824,333	-	824,333
Payment in lieu of taxes					561,000	-	561,000
Penalties and interest					64,170	-	64,170
Interest on investments					1,850,124	878,065	2,728,189
Miscellaneous revenue					169,746	-	169,746
Transfers					946,001	(946,001)	-
Total general revenues and transfers					24,274,596	(67,936)	24,206,660
Change in net position					4,564,000	1,587,612	6,151,612
Net position - beginning of year					58,082,760	39,159,333	97,242,093
NET POSITION - END OF YEAR					$ 62,646,760	$ 40,746,945	$ 103,393,705

The Notes to Basic Financial Statements are an integral part of these statements.

Fund Financial Statements
Governmental Funds

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City of Watauga, Texas
Balance Sheet - Governmental Funds
September 30, 2025

	General	Debt Service	Capital Projects	COVID-19 Grant	Non Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 7,990,447	$ 1,213,490	$ 900,735	$ 1,064,942	$ 4,380,171	$ 15,549,785
Investments	1,803,722	120,437	27,834,383	-	374,305	30,132,847
Receivables, net of allowance for uncollectibles						
Property taxes	155,228	75,629	-	-	-	230,857
Accounts receivable	1,482,121	-	-	-	453,927	1,936,048
Prepaid items	16,117	-	-	-	450	16,567
Inventory of supplies	20,494	-	-	-	-	20,494
TOTAL ASSETS	$ 11,468,129	$ 1,409,556	$ 28,735,118	$ 1,064,942	$ 5,208,853	$ 47,886,598
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
LIABILITIES						
Accounts payable	$ 426,578	$ -	$ 215,370	$ 467,375	$ 107,188	$ 1,216,511
Accrued liabilities	841,225	14,913	29,237	-	41,343	926,718
Unearned revenue	-	-		597,567	-	597,567
Deposits	19,879	-	-	-	-	19,879
Total liabilities	1,287,682	14,913	244,607	1,064,942	148,531	2,760,675
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	160,792	69,040	-	-	-	229,832
Unavailable revenue - EMS	573,228	-	-	-	-	573,228
Total deferred inflows of resources	734,020	69,040	-	-	-	803,060
Fund balances:						
Nonspendable						
Inventory	20,494	-	-	-	-	20,494
Prepaid items	16,117	-	-	-	450	16,567
Restricted:						
Capital acquisitions and contractual obligations	-	-	28,490,511	-	45,975	28,536,486
Debt service	-	1,325,603	-	-	-	1,325,603
Culture and recreation	-	-	-	-	243,490	243,490
Economic development	-	-	-	-	3,304,574	3,304,574
Public works	-	-	-	-	6,637	6,637
Public safety	-	-	-	-	1,459,196	1,459,196
Unassigned	9,409,816	-	-	-	-	9,409,816
Total fund balances	9,446,427	1,325,603	28,490,511	-	5,060,322	44,322,863
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 11,468,129	$ 1,409,556	$ 28,735,118	$ 1,064,942	$ 5,208,853	$ 47,886,598

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2025

TOTAL FUND BALANCE - GOVERNMENTAL FUND	$ 44,322,863
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities, excluding ISF capital assets, are not current financial resources and therefore are not reported in the governmental funds balance sheet.	60,523,015
Deferred outflows related to OPEB	156,885
Deferred outflows related to pension	2,260,564
Interest payable on long-term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet.	(172,016)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	803,060
Deferred inflows related to OPEB	(662,904)
Deferred inflows related to Pension	(623,833)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:	
General obligation bonds	(115,000)
Certificate of obligations	(35,940,000)
Premiums on issuance	(1,531,773)
Arbitrage liability	(531,355)
Compensated absences	(2,536,168)
Right-to-use subscription assets	(51,833)
Right-to-use leases	(227,583)
Net pension liability	(6,097,663)
Total OPEB liability	(1,022,953)
Total long-term liabilities	(48,054,328)
Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net position of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long-term liabilities.	4,093,454
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	$ 62,646,760

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For The Fiscal Ended September 30, 2025

	General	Debt Service	Capital Projects	COVID-19 Grant	Non Major Governmental Funds	Total Governmental Funds
REVENUES						
Taxes and franchise fees	$ 13,388,149	$ 4,449,344	$ -	$ -	$ 2,889,280	$ 20,726,773
Licenses and permits	937,898	-	-	-	-	937,898
Charges for services	1,367,242	-	-	-	-	1,367,242
Fines and forfeitures	623,860	-	-	-	-	623,860
Interest income	448,191	54,362	987,780	77,145	201,931	1,769,409
Intergovernmental	561,000	-	364,095	2,346,162	-	3,271,257
Miscellaneous	836,410	-	-	-	155,753	992,163
Total revenues	18,162,750	4,503,706	1,351,875	2,423,307	3,246,964	29,688,602
EXPENDITURES						
Current:						
General government	5,303,161	-	-	-	-	5,303,161
Public safety	9,404,811	-	-	40,405	1,950,414	11,395,630
Culture and recreation	2,710,745	-	-	-	9,020	2,719,765
Economic development	-	-	-	-	88,892	88,892
Public works	1,012,966	-	-	125,000	-	1,137,966
Capital outlay	50,159	-	3,614,798	2,257,902	517,754	6,440,613
Debt service:						
Principal	84,014	3,540,000	-	-	34,307	3,658,321
Interest and other charges	3,247	1,011,807	128,220	-	8,284	1,151,558
Total expenditures	18,569,103	4,551,807	3,743,018	2,423,307	2,608,671	31,895,906
Excess (deficiency) of revenues over expenditures	(406,353)	(48,101)	(2,391,143)	-	638,293	(2,207,304)
OTHER FINANCING SOURCES (USES)						
Issuance of debt	-	-	8,740,000	-	-	8,740,000
Premium on bond issuance	-	-	228,251	-	-	228,251
Transfers in	910,640	150,000	648,000	-	100,000	1,808,640
Transfers out	(648,000)	-	-	-	(599,640)	(1,247,640)
Total other financing sources (uses)	262,640	150,000	9,616,251	-	(499,640)	9,529,251
Net change in fund balances	(143,713)	101,899	7,225,108	-	138,653	7,321,947
Fund Balance, beginning	9,590,140	1,223,704	21,265,403	-	4,921,669	37,000,916
FUND BALANCE, ending	$ 9,446,427	$ 1,325,603	$ 28,490,511	$ -	$ 5,060,322	$ 44,322,863

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances to the
Statement of Activities
For the Fiscal Year Ended September 30, 2025

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	$ 7,321,947
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	6,100,692
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(2,703,644)
The issuance of long-term debt (e.g. bonds and arbitrage liability) ($8,740,000 and $335,279) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt, including leases and SBITAs, of $3,630,385 consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items of $138,376, when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(5,555,334)
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(809,339)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(169)
Certain unavailable revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	206,344
Current year changes in the net pension liability, deferred inflows of resources and deferred outflows of resources in the pension plan. The net effect of these items decreased net position.	(148,747)
Current year changes in the net pension liability, deferred inflows of resources and deferred outflows of resources in the OPEB plans. The net effect of these items decreased net position.	(4,754)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities.	157,004
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	$ 4,564,000

The Notes to Basic Financial Statements are an integral part of these statements.

Fund Financial Statements
Proprietary Funds

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City of Watauga, Texas
Statement of Net Position
Proprietary Funds
September 30, 2025

	Business-Type Activities			
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Governmental Activities - Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,708,221	$ 4,991,455	$ 7,699,676	$ 1,669,104
Investments	12,995,601	728,426	13,724,027	-
Accounts receivable and unbilled revenue less allowance for uncollectibles	1,610,506	72,931	1,683,437	-
Inventories	39,591	-	39,591	-
Total current assets	17,353,919	5,792,812	23,146,731	1,669,104
Non-current assets:				
Capital Assets:				
Land	91,000	-	91,000	-
Construction in Progress	1,011,138	385,855	1,396,993	-
Buildings	3,246,847	106,931	3,353,778	154,068
Right-to-use assets	38,060	-	38,060	-
Equipment	2,095,287	152,938	2,248,225	5,852,047
Drainage improvements	-	21,722,744	21,722,744	-
Waterworks and sanitary sewer system	35,954,657	-	35,954,657	-
	42,436,989	22,368,468	64,805,457	6,006,115
Less Accumulated depreciation/amortization	(10,397,948)	(12,499,903)	(22,897,851)	(3,384,058)
Capital assets net of depreciation/amortization	32,039,041	9,868,565	41,907,606	2,622,057
Total assets	49,392,960	15,661,377	65,054,337	4,291,161
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - OPEB	22,412	7,471	29,883	-
Deferred outflows - pension	322,938	107,646	430,584	-
Total deferred outflows	345,350	115,117	460,467	-

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Net Position – Continued
Proprietary Funds
September 30, 2025

	Business-Type Activities			
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Governmental Activities - Internal Service Fund
LIABILITIES				
Current liabilities:				
Payable from current assets				
Accounts payable	$ 802,259	$ 283,511	$ 1,085,770	$ 1,779
Accrued liabilities	181,291	14,130	195,421	-
Current portion of right-to-use leases	4,487	-	4,487	-
Current portion of compensated absences	12,754	1,806	14,560	-
Current portion of bonds payable	1,560,000	-	1,560,000	-
Deposits	974,367	-	974,367	-
Payable from restricted assets				
Accrued interest	101,457	-	101,457	-
Total current liabilities	3,636,615	299,447	3,936,062	1,779
Noncurrent liabilities:				
Bonds payable	19,253,293	-	19,253,293	-
Compensated absences	130,499	42,532	173,031	-
Total OPEB liability	146,136	48,712	194,848	-
Net pension liability	871,095	290,365	1,161,460	-
Total non-current liabilities	20,401,023	381,609	20,782,632	-
Total liabilities	24,037,638	681,056	24,718,694	1,779
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - OPEB	94,701	31,567	126,268	-
Deferred inflows - pension	89,119	29,706	118,825	-
Total deferred inflows	183,820	61,273	245,093	-
NET POSITION				
Net investment in capital assets	21,035,841	9,868,565	30,904,406	2,622,057
Unrestricted	4,481,011	5,165,600	9,646,611	1,667,325
TOTAL NET POSITION	$ 25,516,852	$ 15,034,165	40,551,017	$ 4,289,382
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			195,928	
Net position of business-type activities			$ 40,746,945	

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the fiscal year ended September 30, 2025

	Business-Type Activities			
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Governmental Activities - Internal Service Fund
OPERATING REVENUES				
Water service	$ 4,987,685	$ -	$ 4,987,685	$ -
Sewer service	4,618,749	-	4,618,749	-
Drainage fees	-	1,498,099	1,498,099	-
Service fees and miscellaneous	799,484	-	799,484	87,660
Total operating revenues	10,405,918	1,498,099	11,904,017	87,660
OPERATING EXPENSES				
Personnel services	1,948,881	511,475	2,460,356	-
Supplies	105,879	24,169	130,048	-
Maintenance	94,623	52,235	146,858	-
Contractual services	5,120,709	323,298	5,444,007	-
Capital outlay	211,179	135,749	346,928	49,944
Depreciation and amortization	739,730	452,705	1,192,435	393,730
Total operating expenses	8,221,001	1,499,631	9,720,632	443,674
Operating income (loss)	2,184,917	(1,532)	2,183,385	(356,014)
NON - OPERATING REVENUES (EXPENSES)				
Investment income	652,103	225,962	878,065	80,715
Gain on disposal of capital assets	29,105	-	29,105	7,500
Interest expense	(517,139)	-	(517,139)	-
TOTAL NON - OPERATING REVENUE (EXPENSES), net	164,069	225,962	390,031	88,215
Income (loss) before transfers	2,348,986	224,430	2,573,416	(267,799)
Transfers in	-	-	-	385,000
Transfers out	(752,001)	(194,000)	(946,001)	-
Change in net position	1,596,985	30,430	1,627,415	117,201
TOTAL NET POSITION, beginning of the year	23,919,867	15,003,735	38,923,602	4,172,181
TOTAL NET POSITION, ending of the year	$ 25,516,852	$ 15,034,165	$ 40,551,017	$ 4,289,382
Reconciliation to government-wide statement of net position				
Change in net position			1,627,415	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(39,803)	
Change in net position of business-type activities			$ 1,587,612	

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended September 30, 2025

	Business-Type Activities			
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Governmental Activities - Internal Service Fund
OPERATING ACTIVITIES				
Cash received from customers	$ 10,531,848	$ 1,505,412	$ 12,037,260	$ 95,160
Cash payments to suppliers for goods and services	(5,054,967)	(288,939)	(5,343,906)	(48,165)
Cash payments to employees for services	(1,788,629)	(481,772)	(2,270,401)	-
Net cash provided by operating activities	3,688,252	734,701	4,422,953	46,995
NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	-	-	385,000
Transfers to other funds	(752,001)	(194,000)	(946,001)	-
Net cash provided by (used in) in noncapital financing activities	(752,001)	(194,000)	(946,001)	385,000
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds on issuance of debt	1,523,716	-	1,523,716	-
Proceeds from the sale of equipment	29,105	-	29,105	-
Purchase of capital assets	(838,546)	(219,030)	(1,057,576)	(897,917)
Repayment of debt	(1,493,774)	-	(1,493,774)	-
Premiums on bond issuances	(82,803)	-	(82,803)	-
Interest paid on debt	(514,606)	-	(514,606)	-
Net cash used in capital and related financing activities	(1,376,908)	(219,030)	(1,595,938)	(897,917)
INVESTING ACTIVITIES				
Purchase of investments	(1,627,713)	(34,528)	(1,662,241)	-
Investment income	652,103	225,962	878,065	80,715
Net cash provided by (used in) investing activities	(975,610)	191,434	(784,176)	80,715
NET CHANGE IN CASH AND CASH EQUIVALENTS	583,733	513,105	1,096,838	(385,207)
CASH AND CASH EQUIVALENTS , beginning of year	2,124,488	4,478,350	6,602,838	2,054,311
CASH AND CASH EQUIVALENTS , end of year	$ 2,708,221	$ 4,991,455	$ 7,699,676	$ 1,669,104
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	$ 2,184,917	$ (1,532)	$ 2,183,385	$ (356,014)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	739,730	452,705	1,192,435	393,730
Loss on disposal of assets	336,868	-	336,868	7,500
Change in assets and liabilities				
Accounts receivable and unbilled revenue	45,877	4,830	50,707	-
Inventories	7,392	-	7,392	-
Deferred outflows - OPEB	12,305	4,101	16,406	-
Deferred outflows - pension	198,100	66,033	264,133	-
Accounts payable	163,685	248,995	412,680	1,779
Accrued liabilities	68,641	(164)	68,477	-
Deposits	49,531	-	49,531	-
Compensated absences	69,682	22,559	92,241	-
Net pension liability	(265,969)	(88,656)	(354,625)	-
Total OPEB liability	6,118	2,039	8,157	-
Deferred inflows - OPEB	(17,744)	(5,915)	(23,659)	-
Deferred inflows - pension	89,119	29,706	118,825	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,688,252	$ 734,701	$ 4,422,953	$ 46,995

The Notes to the Basic Financial Statements are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

The City of Watauga (the City) Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and amended January 19, 1985, August 8, 1987, August 11, 1990, January 15, 1994, August 10, 1996, August 8, 1998, September 14, 2002, May 7, 2005, November 6, 2007, May 11, 2013 and November 5, 2019. The City operates under a Council-Manager form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

The City prepares its basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

The basic financial statements of the City include the primary government and its component units, entities for which the primary government is financially accountable and other entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The following entities were found to be component units of the City and are included in the basic financial statements:

The Watauga Economic Development Corporation (WEDC) was created to encourage the development and advancement of City businesses, development and parks within the City. It provides services that entirely benefits the City. The WEDC is funded through a ¼ cent sales tax and is a Type B corporation. The WEDC is composed of two funds: a special revenue fund and a capital projects fund. Its governing board is appointed by the City Council the City Council is the final authority for approving of funding of projects and the WEDC annual budget. On WEDC's governing board, there are 7 seats which, at a max, 4 seats are allocated to members of the City Council. During 2024, three seats are from the City Council, two are citizens and the last two seats are vacant, which have been vacant since inception. In September 2024, the City added two additional members to the Board. In addition, two of the Certificate of Obligations, the City issued on behalf of the WEDC.

The Watauga Crime Control and Prevention District Fund's (WCCPD) sole purpose is to act on behalf of the City in the accumulation and use of resources to add law enforcement officers and purchase additional equipment and supplies for law enforcement purposes. It provides services that entirely benefits the City. The WCCPD's governing board is appointed by the City Council and the City Council is the final authority for approval of funding of projects and the WCCPD's annual budget. The WCCPD is reported as a special revenue fund.

A blended presentation has been used to report the financial information of these component units. The financial information for the individual component units is available from the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its blended component units. For the most part the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund
The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund
The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

Capital Projects Fund
The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment. Financing is provided primarily by the sale of tax notes, general obligation and contractual obligation bonds.

COVID-19 Grant Fund
The COVID-19 Grant Fund is used to account for the CARES Grant Interlocal Agreement with Tarrant County passed through the federal government for Coronavirus relief. The eligible expenses include expenses related to COVID-19 response, including payroll and benefits costs, public health and safety, telework enhancements, etc. The City received American Rescue Plan Act funding in 2021 and 2022 that was deposited to this fund for future use.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

The City has presented the following major proprietary funds:

Water and Sewer Fund
The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly, at least annually, and adjusted if necessary to ensure integrity of the funds.

Drainage Utility Fund
The Drainage Utility Fund is used to account for the user fees charged per residential and commercial unit to enhance drainage of properties within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

Additionally, the City reports an Internal Service Fund, which was established in 1997 for the purpose of replacing equipment. Departments are charged user fees to accumulate funds to be used in replacing existing equipment as needed.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

E. Deposits and Investments

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash accounts or individual fund investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash equivalents. Certificates of Deposit are reported at cost plus accrued interest. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds, and certificates of deposits within established criterion. During the year ended September 30, 2025, the City did not own any types of securities other than those permitted by statute.

F. Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to $2.50 per $100 of assessed valuation. The City's current tax rate is $0.570200 per $100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

G. Prepaid Items

Prepaid items indicate payments made by the City in the current year to provide services occurring in a subsequent fiscal year. The consumption approach provides for the initial reporting of the item as an asset while recognition of the expenditure when the item is actually used or consumed.

H. Inventories

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies. Inventories are offset by a fund balance reserve account in applicable governmental funds to indicate the inventory values are not available for appropriation and are not expendable financial resources.

I. Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

J. Transfers Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Interfund transfers in the fund statements are reported as other financing sources (uses) in governmental funds and after non-operating revenues (expenses) in the proprietary funds.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, equipment, and infrastructure assets.

Assets capitalized, not including infrastructure assets, have an original cost of $10,000 or more and over five years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	50 years
Equipment	10 years
Drainage Improvements	50 years
Infrastructure	9-50 years
Waterworks and sanitary sewer system	50 years

L. Leases

The City is a lessee for non-cancellable leases of property and equipment. The City recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset (lease asset), reported with other capital assets, in the government-wide financial statements.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how the City determined (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancellable period of the lease.
- Lease payments included in the measurement of the lease receivable are composed of fixed payments from the lessee, variable payments from the lessee that are fixed in substance or that depend on an index or a rate, residual value guarantee payments from the lessee that are fixed in substance, and any lease incentives that are payable to the lessee.

The City monitors changes in circumstances that would require a re-measurement of its leases and will re-measure the lease asset and liability if certain changes occur that re expected to significantly affect the amount of the lease liability.

M. Subscription-Based Information Technology Arrangements (SBITAs)

The City has noncancellable contracts with SBITA vendors for the right-to-use information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). The City recognizes a subscription liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with other capital assets, in the government-wide and proprietary fund financial statements. The City recognizes subscription liabilities with an initial, individual value of $25,000 or more.

At the commencement of a SBITA, the City initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of SBITA payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for SBITA payments made at or before the SBITA commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying IT assets.

Key estimates and judgments related to SBITAs include how the City determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

The City uses the interest rate charged by the SBITA vendor as the discount rate. When no interest rate is provided by the vendor, the City generally uses its estimated incremental borrowing rate as the discount rate for SBITAs. The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, termination penalties if the City is reasonably certain to exercise such options, subscription contract incentives receivable from the SBITA vendor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The City monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

N. Compensated Absences

On January 1, 2023, the City updated its sick leave policy to where all employees can accumulate sick leave, but only civil service employees, upon termination, can be reimbursed 100% of 90 days. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. The total liability for compensated absences at September 30, 2025 was $2,723,760, including $187,592 of proprietary fund balances which are included in current and non-current liabilities on the proprietary fund statement of net position.

The estimated vacation liability expected to be satisfied with available financial resources is included in accrued salaries and wages in the governmental funds.

The City recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee benefit account) during or upon separation from employment. Based on the criteria listed, the following types of leave qualify for liability recognition for compensated absences – vacation and sick leave. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Except for where noted above, the City does not have a monetary obligation for accumulated sick leave benefits upon separation from service. However, a liability for the estimated value of leave benefits that will be used by employees as time off is included in the liability for compensated absences.

O. Deferred Inflows and Outflows of Resources

The statement of net position includes a separate section, in addition to assets, for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net assets that applies to future periods and therefore will not be recognized as an expense/expenditure until that time. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net assets that applies to future periods and so will not be recognized as revenue until that time.

The City has the following items that qualify for reporting as deferred outflows or inflows of resources:

- Difference in projected and actual earnings on pension assets – this difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension and OPEB experience – this difference is deferred and amortized over a closed period that approximates the estimated average remaining lives of all members on the measurement date.
- Difference in pension and OPEB actuarial assumption changes – this difference is deferred and amortized over a closed period that approximates the estimated average remaining lives of all members on the measurement date.
- Pension and OPEB contributions after measurement date – these contributions are deferred and recognized in the following fiscal year.
- Emergency medical services and property taxes are recognized in the period the amount becomes available.

P. Fund Balance

The City reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been classified as non-spendable in the Governmental Funds Balance Sheet.

Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, debt service and other purpose and state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution by City Council. Once the resolutions are adopted, the limitation imposed remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. There were no committed fund balances as of September 30, 2025.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. Per the City's fund balance policy, assigned fund balance amounts are established by the City Manager. There were no assigned fund balances as of September 30, 2025.

Unassigned fund balance – amounts that are available for any purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

Q. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City's net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

R. Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Since under Texas law, appropriations lapse at fiscal year-end, outstanding encumbrances are appropriately provided for in the subsequent years' budget to provide for the liquidation of the prior commitments. As of September 30, 2025, the City had no encumbrances in the General Fund that rolled over into the new fiscal year.

S. Pension

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, GRS Retirement Consulting, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

T. Other Post-Employment Benefits

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's self-insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees.

Information regarding the City's total liability for this plan is obtained through a report prepared by GRS Retirement Consulting, the City's third-party actuary, in compliance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Additionally, the City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, GRS Retirement Consulting, in compliance with GASB Statement No. 75.

U. New Accounting Pronouncements

The GASB pronouncements effective in fiscal years 2025 and significant pronouncements that are effective beyond are listed as follows:

GASB Statement No. 101*, Compensated Absences* (GASB 101), improves the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2023, with earlier application encouraged. GASB 101 was implemented in the City's fiscal year 2025 financial statements with no impact to amounts or disclosures previously reported.

GASB Statement No. 102*, Certain Risk Disclosures* (GASB 102), improves financial reporting by providing users of financial statements with essential information regarding certain concentrations of constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. The requirements of this statement are effective for reporting periods beginning after June 15, 2024, with earlier application encouraged. GASB 102 was implemented in the City's fiscal year 2025 financial statements with no impact to amounts or disclosures previously reported.

GASB Statement No. 103*, Financial Reporting Model Improvements* (GASB 103), improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 103 will be implemented in the City's fiscal year 2026 financial statements and the impact has not yet been determined.

GASB Statement No. 104*, Disclosure of Certain Capital Assets* (GASB 104), establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures. It also establishes requirements for capital assets held for sale, including additional disclosures for those capital assets. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 104 will be implemented in the City's fiscal year 2026 financial statements and the impact has not yet been determined.

GASB Statement No. 105, *Subsequent Events* (GASB 105), improves financial reporting related to subsequent events by 1) clarifying the subsequent events time frame and the subsequent events that constitute recognized and non-recognized events and 2) specifies the information items that are required to be disclosed about subsequent events. The requirements of this statement are effective for reporting periods beginning after June 15, 2026, with earlier application encouraged. GASB 105 will be implemented in the City's fiscal year 2027 financial statements and the impact has not yet been determined.

Note 2. Deposits (Cash) and Investments

The Public Funds Investment Act (Government Code Chapter 2256) (the Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the following table:

Authorized Investment Type	Final Stated Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Public funds investment	N/A	100%	None
Certificates of deposit	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
No-load money market	5 years	50%	None
Repurchase agreements	5 years	50%	None
State of Texas securities	5 years	50%	None
U.S. agency obligations	5 years	50%	None
Commercial paper	5 years	10%	None

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Deposits and investments as of September 30, 2025, are classified in the accompanying financial statements as follows:

Governmental Activities	$	47,351,736
Business Type Activities		21,423,703
	$	68,775,439

Deposits and investments as of September 30, 2025, consist of the following:

Deposits with financial institutions	$	5,012,982
Petty cash		4,705
Investments		63,757,752
	$	68,775,439

$10,000 of the deposits with financial institutions listed above are in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

Some of items above are classified as short-term investments and are included in cash and cash equivalents.

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

A. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter-term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2025, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
TexPool	$ 17,313,721	41 days
TexPool Prime	1,454,798	41 days
TexasTERM	548,123	45 days
LOGIC	360,990	54 days
Money Market	40,605,052	Daily
CDs	3,475,068	29 days
	$ 63,757,752	

$1,464,512 of the investments listed above are in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

As of September 30, 2025, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

B. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy or debt agreements and the actual rating as of year-end for each investment type.

Investment Type	Carrying Value	Minimum Rating Required	Actual Investment Rating
TexPool	$ 17,313,721	AAA	AAAm
TexPool Prime	1,454,798	AAA	AAAm
TexasTerm	548,123	AAA	AAAm
LOGIC	360,990	AAA	AAA
Money Market	40,605,052	N/A	N/A
CDs	3,475,068	N/A	N/A
	$ 63,757,752		

C. Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2025, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The Public Funds Investment Act requires that a financial institution secure deposit made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance of $250,000 at all times.

At September 30, 2025, the carrying amount of the City's cash on hand and deposits was $5,012,982 and the bank balance was $5,152,750. Of the bank balance, $250,000 was covered by federal depository insurance while the remaining $4,902,750 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

The City is a voluntary participant in the TexPool, TexPool Prime, LOGIC and TexasTERM external investment pools.

The State Comptroller of Public Accounts exercises responsibility over TexPool and TexPool Prime. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of participants in TexPool, TexPool Prime and other persons who do not have a business relationship with TexPool or TexPool Prime. TexPool and TexPool Prime operate in a manner consistent with the SEC's Rule2a7 of the Investment Company Act of 1940. TexPool and TexPool Prime use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the positions in TexPool and TexPool Prime are the same as the value of TexPool and TexPool Prime shares.

LOGIC is governed by a six-member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC assists governments across Texas making the most of taxpayer dollars by allowing local officials to improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund. LOGIC is a "Constant Dollar" net asset value pool and is in full compliance with the Texas Public Funds Investment Act.

TexasTERM is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. A seven-member advisory board governs the Pool. As required by the Public Funds Investment Act, the Advisory Board is composed of participants in the Pool and other persons who do not have a business relationship with the Pool. Under agreement with the TexasTERM Advisory Board, PFM Asset Management LLC provides administrative and investment services to the pool. The Pool purchases only investments of the type in which Texas local governments are permitted to invest their own funds. The fair value of the position in TexasTERM is the same as the value of TexasTERM shares.

The City's external pooled funds are reported at amortized cost or net asset value as permitted by GASB Statement No. 79, Certain External Investment Pools and Pool Participants. External investment pools are exempt from fair value reporting and are, therefore, excluded from the fair value hierarchy. In addition, The City's investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, Fair Value Measurement and Application provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Market values of money market accounts are based on quoted market values using Level 2 inputs. Certificates of deposit are recorded at cost plus accrued interest and are exempt from the fair value hierarchy.

Note 3. Receivables

Accounts receivable balances for the year ended September 30, 2025, was as follows:

Governmental Funds:

	General	Debt Service	Capital Projects	Nonmajor Governmental	Total
Receivables:					
Property taxes	$ 207,722	$ 103,313	$ -	$ -	$ 311,035
Sales tax	750,185	-	-	446,369	1,196,554
Garbage	100,554	-	-	-	100,554
Ambulance	1,006,665	-	-	-	1,006,665
Other	104,861	1,025	-	7,558	113,444
Gross receivables	2,169,987	104,338	-	453,927	2,728,252
Less: allowance for uncollectibles	(532,638)	(28,709)	-	-	(561,347)
Total net receivables	$ 1,637,349	$ 75,629	$ -	$ 453,927	$ 2,166,905

Proprietary Funds:

	Water and Sewer	Drainage Utility	Total
Receivables:			
Customer accounts	$ 2,038,911	$ 107,614	$ 2,146,525
Gross receivables	2,038,911	107,614	2,146,525
Less: allowance for uncollectibles	(428,405)	(34,683)	(463,088)
Total net receivables	$ 1,610,506	$ 72,931	$ 1,683,437

Note 4. Capital Assets

Capital asset activity for the year ended September 30, 2025, was as follows:

	Balance, September 30, 2024	Additions/ Completions	Retirements	Transfers	Balance, September 30, 2025
Governmental activities					
Capital assets, not being depreciated					
Land	$ 19,394,600	$ -	$ -	$ -	$ 19,394,600
Construction in progress	2,716,651	3,411,890	-	(439,986)	5,688,555
Total capital assets, not being depreciated	22,111,251	3,411,890	-	(439,986)	25,083,155
Capital assets being depreciated					
Buildings and improvements	24,127,553	-	-	-	24,127,553
Right-to-use leased assets	610,442	-	-	-	610,442
Right-to-use subscription assets	89,267	-	-	-	89,267
Improvements other than buildings	801,603	623,146	-	-	1,424,749
Equipment	19,926,741	2,355,622	(344,873)	-	21,937,490
Infrastructure	43,830,109	607,951	-	439,986	44,878,046
Total capital assets, being depreciated/amortized	89,385,715	3,586,719	(344,873)	439,986	93,067,547
Less accumulated depreciation					
Buildings and improvements	7,919,417	468,826	-	-	8,388,243
Right-to-use leased assets	235,352	78,451	-	-	313,803
Right-to-use subscription assets	7,605	22,814	-	-	30,419
Improvements other than buildings	134,648	17,659	-	-	152,307
Equipment	12,951,407	1,193,145	(344,873)	-	13,799,679
Infrastructure	31,240,431	1,276,676	-	-	32,517,107
Total accumulated depreciation/amortization	52,488,860	3,057,571	(344,873)	-	55,201,558
Total capital assets being depreciated/amortized, net	36,896,855	529,148	-	439,986	37,865,989
Governmental activities capital assets, net	$ 59,008,106	$ 3,941,038	-	-	$ 62,949,144

	Balance, September 30, 2024	Additions/ Completions	Retirements	Transfers	Balance, September 30, 2025
Business-type Activities					
Capital assets, not being depreciated:					
Land	$ 91,000	$ -	$ -	$ -	$ 91,000
Construction in progress	1,053,480	383,523	-	(40,010)	1,396,993
Total capital assets, not being depreciated	1,144,480	383,523	-	(40,010)	1,487,993
Capital assets, being depreciated:					
Buildings and improvements	3,353,778	-	-	-	3,353,778
Right-to-use leased assets	38,060	-	-	-	38,060
Equipment	2,979,902	165,203	(336,868)	-	2,808,237
Street and drainage improvements	21,722,745	-	-	-	21,722,745
Waterworks and sewer system	35,607,524	308,080	-	40,010	35,955,614
Total capital assets, being depreciated/amortized	63,702,009	473,283	(336,868)	40,010	63,878,434
Less accumulated depreciation					
Buildings and improvements	1,572,012	63,675	-	-	1,635,687
Right-to-use leased assets	22,836	7,612	-	-	30,448
Equipment	1,725,483	173,387	(200,770)	-	1,698,100
Street and drainage improvements	11,912,088	434,344	-	-	12,346,432
Waterworks and sewer system	6,999,006	553,220	-	-	7,552,226
Total accumulated depreciation/amortization	22,231,425	1,232,238	(200,770)	-	23,262,893
Total capital assets being depreciated/amortized, net	41,470,584	(758,955)	(136,098)	40,010	40,615,541
Business-type activities capital assets, net	$ 42,615,064	$ (375,432)	$ (136,098)	$ -	$ 42,103,534

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental Activities	
General government	$ 631,560
Public safety	440,432
Culture and recreation	290,185
Public works	1,341,467
Internal Service Fund	353,927
Total depreciation/amortization expense - Governmental Activities	$ 3,057,571
Business-type activities	
Water and wastewater	$ 739,730
Drainage	452,705
Internal Service Fund	39,803
Total depreciation/amortization expense - Business-type Activities	$ 1,232,238

During the year ended September 30, 2025, $2,426,069 and $195,928 of internal service fund capital assets were recorded in governmental activities and business-type activities, respectively, on the accompanying statement of net position. Additionally, $353,927 and $39,803 of internal service fund depreciation expense were recorded in governmental activities and business-type activities, respectively, on the accompanying statement of activities.

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2025 are as follows:

Project Name	Remaining Commitment	Total in Progress
Governmental Activities		
Whitley Road - Phase 5	$ 24,242	$ 779,412
Arcadia Trail Design	24,056	-
Park Vista Park	63,635	30,778
Pole Barn	89,892	89,892
Watauga Road 1	-	745,488
Security System	-	9,000
HVAC Rec Center	557,973	151,358
Public Works Parking Lot	24,375	73,125
Water/ Wastewater Group 3	866,207	1,446,837
Hightower Road Phase One	126,533	1,567,459
Ambulance	-	381,580
CDBG 4TH Year	-	2,498
Tarrant County Streets	240,381	340,278
Business Incubator Project	-	70,850
Total governmental activities	$ 2,017,294	$ 5,688,555
Business-type Activities:		
Water, Sewer and Drainage Projects	$ 4,055,962	$ 582,634
Sanitary Sewer Evaluation Study - Phase Two	-	224,688
CDBG	1,206	5,909
Park Vista Storm Drainage	-	166,825
Bunker Hill Drainage	139,170	88,530
Whitley Road	7,599,391	130,500
Wastewater Phase Two (North)	-	197,907
Total business-type activities	$ 11,795,729	$ 1,396,993

Note 5. Long-Term Debt

Compensated absences, OPEB and pension liabilities are generally liquidated by the General Fund, Water and Sewer Fund, and the Drainage Utility Fund.

During the fiscal year ended September 30, 2025, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2025 in amount of $10,225,000 with an interest rate of 4.125% to 5% and a premium in the amount of $418,846. The proceeds will be used for the purposes of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; designing, constructing, renovating, improving, and equipping the City's parks and recreational facilities; constructing, acquiring, purchasing, renovating, enlarging, and improving City administrative facilities; acquiring public safety equipment and vehicles, including an ambulance; constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and traffic safety signalization and signage incidental thereto; the purchase of materials, supplies, equipment, digital signage, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and payment for professional and employee services relating to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects.

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2025:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	$ 230,000	$ -	$ (115,000)	$ 115,000	$ 115,000
Certificates of obligation	30,525,000	8,740,000	(3,325,000)	35,940,000	2,615,000
Tax Notes	100,000	-	(100,000)	-	-
Lease Payable	317,968	-	(90,385)	227,583	62,879
SBITA Payable	77,053	-	(25,220)	51,833	25,334
Unamortized bond premium	1,393,397	228,251	(89,875)	1,531,773	-
Note payable	2,716		(2,716)	-	-
Arbitrage payable	196,076	428,171	(92,892)	531,355	
Compensated absences*	1,726,829	809,339	-	2,536,168	110,557
Net Pension liability	7,959,450	-	(1,861,787)	6,097,663	-
Net OPEB liability	980,124	42,829	-	1,022,953	-
Total governmental activities	43,508,613	10,248,590	(5,702,875)	48,054,328	2,928,770
Business-type activities:					
General obligation bonds	3,925,000	-	(620,000)	3,305,000	635,000
Certificates of obligation	16,000,000	1,485,000	(865,000)	16,620,000	925,000
Lease Payable	13,261	-	(8,774)	4,487	4,487
Unamortized bond premium	932,380	38,716	(82,803)	888,293	-
Compensated absences*	95,350	92,241	-	187,591	14,560
Net Pension liability	1,516,085	-	(354,625)	1,161,460	-
Net OPEB liability	186,691	8,157	-	194,848	-
Total business-type activities	22,668,767	1,624,114	(1,931,202)	22,361,679	1,579,047
Total government-wide activities	$ 66,177,380	$ 11,872,704	$ (7,634,077)	$ 70,416,007	4,507,817

'* Compensated absences are reported as a net change for the year as allowed under the provisions of GASB 101, paragraph 30.

A. General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

General obligations bonds and certificates of obligation payable at September 30, 2025, are comprised of the following individual issues:

	Governmental	Business-type
$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $65,000 to $255,000 through February 1, 2027; interest at 4.11%.	$ 500,000	$ -
$3,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $85,000 to $900,000 through February 2034; interest at 2.25% to 3.50%.	1,025,000	-
$5,885,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $285,000 to $355,000 through February 2036; interest at 2.125% to 4.00%	3,545,000	-
$7,325,000 Series 2017 Certificates of Obligation due in annual installments of $245,000 to $480,000 through February 1, 2037; interest at 3.00%.	-	4,930,000
$6,780,000 Series 2018 Certificates of Obligation due in annual installments of $245,000 to $480,000 through February 1, 2038; interest at 3.00% to 5.00%.	4,405,000	-
$8,490,000 Series 2019 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $195,000 to $555,000 through February 1, 2039; interest at 2.00% to 5.00%	60,000	6,725,000
$2,910,000 Series 2020 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $115,000 to $205,000 through February 1, 2040; interest at 1.50% to 3.00%	2,115,000	-
$1,715,000 Series 2020 General Obligation Refunding Bonds due in annual installments of $115,000 to $235,000 through February 1, 2026; interest at 1.17%.	115,000	235,000
$4,540,000 Series 2021 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $185,000 to $295,000 through February 1, 2041; interest at 2.00% - 4.00%.	3,420,000	-
$4,200,000 Series 2021 General Obligation Refunding Bonds due in annual installments of $365,000 to $470,000 through February 1, 2032; interest at 2.00% -4.00%.	-	3,070,000
$4,930,000 Series 2022 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $105,000 to $1,070,000 through February 1, 2042; interest at 4.00%.	2,925,000	225,000
$8,820,000 Series 2023 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $285,000 to $1,415,000 through February 2033; interest at 5.00%.	7,120,000	-
$6,925,000 Series 2024 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $160,000 to $1,585,000 through February 2044; interest at 4.00% - 5.00%	2,085,000	3,255,000
$10,225,000 Series 2025 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments through February 2045; interest at 4.125% - 5.00%	8,740,000	1,485,000
Total bonds payable	$ 36,055,000	$ 19,925,000

B. Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each type of debt obligation for the years subsequent to September 30, 2025, are as follows:

General Obligation Bonds

	Governmental Activities		Business-type Activities		
	Principal	Interest	Principal	Interest	Total
2026	$ 115,000	$ 673	$ 635,000	$ 78,125	$ 828,798
2027	-	-	415,000	64,525	479,525
2028	-	-	425,000	51,925	476,925
2029	-	-	440,000	38,950	478,950
2030	-	-	455,000	25,525	480,525
2031-2032	-	-	935,000	18,750	953,750
	$ 115,000	$ 673	$ 3,305,000	$ 277,800	$ 3,698,473

Certificates of Obligation

	Governmental Activities		Business-type Activities		
	Principal	Interest	Principal	Interest	Total
2026	$ 2,615,000	$ 1,283,829	$ 925,000	$ 525,492	$ 5,349,321
2027	2,275,000	1,202,458	1,095,000	485,829	5,058,287
2028	1,990,000	1,116,747	975,000	441,904	4,523,651
2029	2,065,000	1,038,228	1,005,000	405,654	4,513,882
2030	2,110,000	961,550	1,040,000	376,879	4,488,429
2031-2035	10,390,000	3,692,824	5,685,000	1,400,695	21,168,519
2036-2040	9,080,000	1,910,615	4,470,000	574,053	16,034,668
2041-2045	5,415,000	475,865	1,425,000	134,772	7,450,637
	$ 35,940,000	$ 11,682,116	$ 16,620,000	$ 4,345,278	$ 68,587,394

Lease Payable

The City has entered into multiple lease agreements as lessee. The leases allow the right-to-use equipment over the term of the lease. The City makes monthly or annual payments at its incremental borrowing rate or the interest rate stated or implied within the leases. The lease rate, term and ending liability are as follows:

Governmental activities	Interest Rate	Ending Balance
Office leases	3%	$ 227,583

Years	Principal	Interest	Total Requirements
2026	$ 62,879	$ 6,574	$ 69,453
2027	25,463	4,941	30,404
2028	26,227	4,177	30,404
2029	27,014	3,390	30,404
2030	27,824	2,580	30,404
Thereafter	58,176	2,632	60,808
	$ 227,583	$ 24,294	$ 251,877

The value of the right-to-use assets at the end of the current fiscal year was $610,442 with accumulated amortization of $313,803.

Business-type activities	Interest Rate	Ending Balance
Office leases	3%	$ 4,487

Years	Principal	Interest	Total
2026	$ 4,487	$ 39	4,526
	$ 4,487	$ 39	$ 4,526

The value of the right-to-use assets at the end of the current fiscal year was $38,060 with accumulated amortization of $30,448.

Subscription-based IT Arrangements

The City leases certain software under subscription-based IT arrangements (SBITA).

In June 2024, the City entered into a 2.7-year subscription arrangement for the use of certain software. An initial subscription liability was recorded in the amount of $29,118. As of September 30, 2025, the value of the subscription liability was $14,204. The City is required to make annual principal and interest payments of $14,914. The subscription has an implicit interest rate of 5.00%. The value of the right-to-use asset as of September 30, 2025 was $29,118 with accumulated amortization of $14,379.

In June 2024, the City entered into a five-year subscription arrangement for the use of certain software. An initial subscription liability was recorded in the amount of $60,149. As of September 30, 2025, the value of the subscription liability was $37,629. The City is required to make annual principal and interest payments ranging from $12,703 to $14,569. The subscription has an implicit interest rate of 5.00%. The value of the right-to-use asset as of September 30, 2025 was $60,149 with accumulated amortization of $16,040.

The future principal and interest lease payments as of September 30, 2025 were as follows:

Governmental activities	Interest Rate	Ending Balance
Software	5%	$ 51,833

Years	Principal	Interest	Total
2026	$ 25,334	$ 2,591	$ 27,925
2027	12,424	1,315	13,739
2028	14,075	694	14,769
	$ 51,833	$ 4,600	$ 56,433

Arbitrage Liability

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally all interest paid to bondholders can be retroactively rendered table if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or performed correctly, a liability to the City could result. The City periodically engages an arbitrage consult to perform the calculations in accordance with the Internal Revenue Service's rules and regulations. The City has recorded an arbitrage liability in the amount of $531,355 as of September 30, 2025.

Note 6. Interfund Receivables, Payables, and Transfers

All interfund transfers between the various funds are approved supplements to the operations of those funds. At September 30, 2025, transfers in/out for governmental and proprietary funds are as follows:

Transfers In	Transfers Out	Amounts
General Fund	Nonmmajor Fund	$ 311,640
General Fund	Drainage Utility Fund	74,000
General Fund	Nonmmajor Fund	38,000
General Fund	Water and Sewer Fund	487,000
Capital Projects Fund	General Fund	648,000
Debt Service Fund	Nonmmajor Fund	150,000
Internal service fund	Drainage Utility Fund	120,000
Nonmmajor Fund	Nonmmajor Fund	100,000
Internal service fund	Water and Sewer Fund	265,000
		$ 2,193,640

Transfers are primarily used to move funds to:

- General Fund from Nonmajor Fund for general and administration charges. The General Fund pays for these services and the amount of transfer is calculated annually by an estimate of personnel hours that spent on economic development projects and tasks.
- Debt Service Fund from Nonmajor Fund for the payment of debt service requirements for authorized WEDC funded projects.
- General Fund from Drainage Utility Fund for general and administrative charges.
- General Fund from Nonmajor Fund for general and administrative charges.
- General Fund from Water and Sewer Fund for general and administrative charges.
- Capital Projects Fund from the general fund for the payment of sidewalk replacements and street repairs and overlays.
- Internal Service Fund from the General Fund for the payment of capital outlay items.
- Internal Service Fund from the Water and Sewer Fund for payment of general and administrative charges.
- Internal Service Fund from the Drainage Utility Fund for payment of general and administrative charges.
- Nonmajor fund to nonmajor fund to set aside funds for capital improvements.

Note 7. Pension Plan

The City participates as one of 938 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at *tmrs.com*.

All eligible employees of the City are required to participate in TMRS.

A. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	7.00%
Matching ration (city to employee)	2 TO 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

B. Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	158
Inactive employees entitled to but not yet receiving benefits	188
Active employees	166
	512

C. Contributions

Member contribution rates in TMRS are either 5%, 6% or 7% of the Member's total compensation, and the City matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7.00% of their annual compensation during the fiscal year. The contribution rates for the City were 16.53% and 17.45% in calendar years 2024 and 2025, respectively. The city's contributions to TMRS for the year ended September 30, 2025 were $2,312,414, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions
The Total Pension Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4- year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of the expected return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.10%
Core Fixed Income	6.0%	5.00%
Non-Core Fixed Income	6.0%	6.80%
Hedge Funds	5.0%	6.40%
Private Equity	13.0%	8.50%
Private Debt	13.0%	8.20%
Real Estate	12.0%	6.70%
Infrastructure	6.0%	6.00%
Other Public and Private Markets	4.0%	7.30%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that Member and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2023	$ 73,446,151	$ 63,970,615	$ 9,475,536
Changes for the year:			
Service cost	2,263,507.00	-	2,263,507
Interest (on the Total Pension Liability)	4,881,134.00	-	4,881,134
Change in benefit terms	(726,934)	-	(726,934)
Difference between expected and actual experience	913,328	-	913,328
Changes of assumptions	-	-	-
Contributions - employer	-	2,068,311	(2,068,311)
Contributions - employee	-	875,873	(875,873)
Net investment income	-	6,646,889	(6,646,889)
Benefit payments, including refunds of employee contributions	(3,075,751)	(3,075,751)	-
Administrative expense	-	(42,629)	42,629
Other	-	(996)	996
Balance at December 31, 2024	$ 77,701,435	$ 70,442,312	$ 7,259,123

Sensitivity of the net pension liability to changes in the discount rate
The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.75%, as well as what the City's Net Pension Liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Single Rate Assumption	1% Increase (7.75%)
City's net pension liability	$ 18,454,650	$ 7,259,123	$ (1,884,481)

E. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at trms.com.

F. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2025 the city recognized pension expense of $2,449,672.

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	$ 934,288	$ -
Difference in projected and actual earnings on pension plan investments	-	(742,658)
Employer contributions made after the measurement date	1,756,860	-
Totals	$ 2,691,148	$ (742,658)

$1,756,860 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2025 (i.e., recognized in the City's financial statements for the year ending September 30, 2026.)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2026	$ 682,621
2027	994,450
2028	(1,018,668)
2029	(466,773)
Totals	$ 191,630

Note 8. Other Postemployment Benefits

A. TMRS Supplemental Death Benefits Plan

Benefit Plan Description
The City contributes to a single employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit (OPEB) and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

Membership in the plan as of the measurement date of December 31, 2024 was as follows:

Inactive employees or beneficiaries currently receiving benefits	97
Inactive employees entitled to but not yet receiving benefits	27
Active employees	166
Total	290

Contributions
Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.17% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate
The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 4.08% based on the Bond Buyer "20-Bond GO Index" rate closest to, but not later than December 31, 2024.

Actuarial Assumptions

The City's Total OPEB Liability (TOL) was measured at December 31, 2024 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Discount Rate	4.08%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables and due to the size of the City, rates are multiplied by an additional factor of 103% for males and 105% for females. The rates are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled for males and females, respectively.

The rates are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements subject to the floor.

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2023	$ 540,419
Changes for the year:	
Service cost	18,769
Interest (on the Total OPEB Liability)	20,445
Difference between expected and actual experience	(8,867)
Changes of assumptions	(27,470)
Benefit payments	(15,015)
Balance at December 31, 2024	$ 528,281

Sensitivity Analysis
The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 4.08%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.08%) or 1 percentage point higher (5.08%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

1% Decrease 3.08%	Current Single Rate Assumption 4.08%	1% Increase 5.08%
$ 624,748	$ 528,281	$ 452,096

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended September 30, 2025, the City recognized OPEB expense of $24,440, which included $15,280 relating to the SDBF plan and $9,160 relating to the WHCP plan.

As of September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to SDBF OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	$ 16,905	$ (19,788)
Differences in assumption changes	8,673	(110,896)
Employer contributions made after the measurement date	17,045	-
		-
Totals	$ 42,623	$ (130,684)

The $17,045 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the measurement year ending December 30, 2025 (i.e., recognized in the City's financial statements for the year ending September 30, 2026.)

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2026	$ (38,347)
2027	(46,695)
2028	(12,850)
2029	(7,214)
2030	-
Total	$ (105,106)

B. City of Watauga Retiree Health Care Plan

Plan description
The City's defined benefit OPEB plan, City of Watauga Retiree Health Care Plan (WHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. WHCP is a single employer defined benefit OPEB plan administered by the City. At this time, no assets are accumulated in a trust to fund the future requirements of the WHCP.

Benefits provided
WHCP provides access to post retirement employees by offering a "blended premium" structure, that is, the overall health care premiums for active employees and non-Medicare retirees, are stated in terms of a single "blended premium". The difference between the underlying retiree claims and the blended overall health care premium is referred to as an "implicit" subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.
Employees covered by benefit terms. At September 30, 2025, the following employees were covered by the benefit terms:

Retirees and beneficiaries	-
Active members	150
Total	150

Total OPEB Liability
The City's total OPEB liability of $689,520 was measured as of December 31, 2024 and was determined by an actuarial valuation as of December 31, 2024.

Actuarial Assumptions
The total OPEB liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age
Inflation	2.50%
Salary Increases	3.60% to 11.85%, including inflation
Discount Rate	4.08%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables and due to the size of the City, rates are multiplied by an additional factor of 103% for males and 105% for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. Mortality rates for pre-retirement were based on the PUB (10) mortality tables, with the Public Safety table used for males and General Employee table used for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

Discount Rate
Because the WHCP is unfunded or pay-as-you go, the discount rate is based on 20-year tax-exempt AA or higher Municipal Bonds or 4.08% as of the measurement date of December 31, 2024 based on the 20 Year Bond GO Index published by bondbuyer.com.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2023	$ 626,396
Changes for the year:	
Service cost	63,701
Interest (on the Total OPEB Liability)	24,816
Difference between expected and actual experience	(3,942)
Changes of assumptions	(21,451)
Benefit payments	-
Balance at December 31, 2024	$ 689,520

Changes of assumptions reflect a change in the discount rate from 3.77% as of December 31, 2023 to 4.08% as of December 31, 2024, revised TMRS demographic and salary increase assumptions, and updates to the health care trend assumption to better reflect the plan's anticipated experience.

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 4.08%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

1% Decrease 3.08%	Current Single Rate Assumption 4.08%	1% Increase 5.08%
$ 761,424	$ 689,520	$ 624,515

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates
The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
$ 603,647	$ 689,520	$ 791,406

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended September 30, 2025, the City recognized OPEB expense of $24,440, which included $15,280 relating to the SDBF plan and $9,160 relating to the WHCP plan. On September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to the WHCP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	$ 40,350	$ (377,864)
Differences in assumption changes	102,909	(280,624)
Employer contributions made after the measurement date	886	-
Totals	$ 144,145	$ (658,488)

The $886 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the measurement year ending December 30, 2025 (i.e., recognized in the City's financial statements for the year ending September 30, 2026.)

Amounts currently reported as deferred outflows of resources related to the WHCP OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2026	$ (82,207)
2027	(82,177)
2028	(77,210)
2029	(79,216)
2030	(84,286)
Thereafter	(110,133)
Total	$ (515,229)

Note 9. Risk Management

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Risk Pool) to provide general liability and property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a $2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is $1,000,000 for each occurrence.

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 10. Litigation

Various claims and lawsuits are pending against the City of Watauga. In the opinion of the City's Legal Counsel and Management, the potential losses will not have a material effect on the City's financial statements.

Note 11. Fund Balance Restrictions

Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors are classified as restricted fund balance. A summary of restricted fund balance in the governmental funds at September 30, 2025, follows:

	Debt Service Funds	Capital Projects Fund	Non Major Governmental Funds	Total
Capital acquisitions and contractual obligations	$ -	$ 28,490,511	$ 45,975	$ 28,536,486
Debt service	1,325,603	-	-	1,325,603
Economic Development	-	-	3,304,574	3,304,574
Culture and recreation:				
PEG Fees	-	-	161,259	161,259
Library purposes	-	-	82,231	82,231
	-	-	243,490	243,490
Public works:				
Street maintenance	-	-	6,637	6,637
	-	-	6,637	6,637
Public safety:				
Law enforcement	-	-	1,271,177	1,271,177
Municipal court operations	-	-	188,019	188,019
	-	-	1,459,196	1,459,196
Total	$ 1,325,603	$ 28,490,511	$ 5,059,872	$ 34,875,986

Note 12. Expenditures in Excess of Budget

During year ended September 30, 2025, the Municipal Court Truancy Special Revenue fund had expenditures in excess of budget of $243.

Required Supplementary Information

City of Watauga, Texas
Budgetary Comparison Schedule
General Fund
For the fiscal year ended September 30, 2025

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes and franchise fees	$ 13,650,480	$ 13,650,480	$ 13,388,149	$ (262,331)
Licenses and permits	825,500	910,500	937,898	27,398
Charges for services	1,351,500	1,351,500	1,367,242	15,742
Fines and forfeitures	590,500	590,500	623,860	33,360
Interest income	380,000	380,000	448,191	68,191
Intergovernmental	561,000	561,000	561,000	-
Miscellaneous	572,200	572,200	836,410	264,210
Total revenues	17,931,180	18,016,180	18,162,750	146,570
Expenditures				
Current:				
Administration	670,500	670,500	635,773	34,727
Non-departmental	917,350	917,350	987,386	(70,036)
Human resources	339,850	339,850	321,856	17,994
Finance	650,660	650,660	630,029	20,631
Information Technology	703,850	703,850	676,089	27,761
Municipal Court	461,790	461,790	451,172	10,618
Library	1,244,700	1,244,700	1,203,008	41,692
Recreation and community services	1,639,100	1,639,100	1,543,410	95,690
Police	5,278,200	5,278,200	5,361,538	(83,338)
Fire/EMS	4,129,640	4,129,640	4,063,308	66,332
Public works	1,087,470	1,087,470	1,012,966	74,504
Fleet maintenance	559,150	616,150	625,548	(9,398)
Buildings	1,041,400	1,041,400	1,057,020	(15,620)
Total expenditures	18,723,660	18,780,660	18,569,103	211,557
Excess (deficiency) of revenues over expenditures	(792,480)	(764,480)	(406,353)	358,127
Other Financing Sources				
Transfers in	911,640	954,114	910,640	43,474
Transfers out	(648,000)	(690,474)	(648,000)	(42,474)
Total other financing sources	263,640	263,640	262,640	1,000
Net change in fund balances	(528,840)	(500,840)	(143,713)	359,127
Fund balance, beginning of year	9,590,140	9,590,140	9,590,140	-
Fund balance, end of year	$ 9,061,300	$ 9,089,300	$ 9,446,427	$ 359,127

City of Watauga, Texas

Notes to Required Supplementary Budget Information
For the fiscal year ended September 30, 2025

BUDGETARY CONTROLS AND PROCEDURES

The City Charter follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures/expenses and the means of financing them.

- The proposed budget and all supporting schedules are filed with the City Secretary when submitted to City Council.

- Public hearings are conducted to obtain taxpayer comments.

- Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.

- The City Manager is authorized to transfer budgeted amounts between programs within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.

- If at any time during a fiscal year, it is estimated by the City Manager that current year's expenditures in any fund will exceed available revenues (including fund balance at the start of the year), the City Manager shall recommend measures to the City Council to ensure that a positive fund balance is maintained.

- Budgets for the General, WEDC Sales Tax, Watauga Crime Control and Prevention, Library Donation, Municipal Court Security, Municipal Court Technology, Municipal Court Truancy, Traffic Safety, Street Maintenance Sales Tax, PEG, Debt Service and Enterprise funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as amended by the City Council. Such appropriations lapse at year-end.

- Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Fund is employed and comparison of actual results of operations to budgetary data for such funds is not presented.

- For all non-major special revenue funds and the debt service fund, no budget amendments were made. Therefore, only final budget is presented.

- Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, other than Jury Fees fund, Debt Service Funds and Enterprise Funds. Budgetary control is maintained at the departmental level.

- Budgetary data for the Enterprise Funds has not been presented since the reporting on such budgets is not legally required. Budgetary control is maintained at the departmental level.

City of Watauga, Texas

Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Measurement Years

	Year Ended December 31									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
TOTAL PENSION LIABILITY										
Service cost	$ 1,484,819	$ 1,513,714	$ 1,531,337	$ 1,577,540	$ 1,705,104	$ 1,745,597	$ 1,716,818	$ 1,977,985	$ 2,174,738	$ 2,263,507
Interest (on the total pension liability)	2,804,072	2,907,277	3,067,400	3,256,548	3,483,534	3,748,335	3,963,566	4,215,293	4,586,111	4,881,134
Changes of benefit terms	-	-	-	-	-	-	-	-	-	(726,934)
Difference between expected and actual experience	(273,667)	(570,355)	(100,072)	22,136	441,878	(140,317)	140,168	1,682,599	1,583,619	913,328
Changes of assumptions	60,403	-	-	-	188,822	-		-	(477,471)	-
Benefit payments, including refunds of employee contributions	(1,071,136)	(1,083,810)	(1,890,714)	(1,548,423)	(1,566,087)	(2,267,132)	(2,034,085)	(2,409,607)	(2,551,719)	(3,075,751)
Net change in total pension liability	3,004,491	2,766,826	2,607,951	3,307,801	4,253,251	3,086,483	3,786,467	5,466,270	5,315,278	4,255,284
Total pension liability, beginning	39,851,333	42,855,824	45,622,650	48,230,601	51,538,402	55,791,653	58,878,136	62,664,603	68,130,873	73,446,151
TOTAL PENSION LIABILITY, ending (a)	$ 42,855,824	$ 45,622,650	$ 48,230,601	$ 51,538,402	$ 55,791,653	$ 58,878,136	$ 62,664,603	$ 68,130,873	$ 73,446,151	$ 77,701,435
PLAN FIDUCIARY NET POSITION										
Contributions - employer	$ 1,245,119	$ 1,197,145	$ 1,259,752	$ 1,289,939	$ 1,342,209	$ 1,450,407	$ 1,479,088	$ 1,714,251	$ 1,818,242	$ 2,068,311
Contributions - employee	652,873	636,779	642,263	664,427	695,961	714,990	696,276	809,702	863,481	875,873
Net investment income	51,790	2,428,960	5,418,502	(1,332,865)	6,732,579	3,849,392	7,096,692	(4,499,187)	6,629,122	6,646,889
Benefit payments, including refunds of employee contributions	(1,071,136)	(1,083,810)	(1,890,714)	(1,548,423)	(1,566,087)	(2,267,132)	(2,034,085)	(2,409,607)	(2,551,719)	(3,075,751)
Administrative expense	(31,544)	(27,433)	(28,079)	(25,758)	(38,033)	(24,904)	(32,829)	(38,930)	(42,156)	(42,629)
Other	(1,558)	(1,478)	(1,423)	1,155	(3,642)	(972)	225	46,456	(297)	(997)
Net change in plan fiduciary net position	845,544	3,150,163	5,400,301	(951,525)	7,162,987	3,721,781	7,205,367	(4,377,315)	6,716,673	6,471,696
Plan fiduciary net position, beginning	35,096,640	35,942,184	39,092,347	44,492,648	43,541,123	50,704,110	54,425,891	61,631,258	57,253,943	63,970,616
PLAN FIDUCIARY NET POSITION, ending (b)	$ 35,942,184	$ 39,092,347	$ 44,492,648	$ 43,541,123	$ 50,704,110	$ 54,425,891	$ 61,631,258	$ 57,253,943	$ 63,970,616	$ 70,442,312
NET PENSION LIABILITY/ (ASSET), ending (a) - (b)	$ 6,913,640	$ 6,530,303	$ 3,737,953	$ 7,997,279	$ 5,087,543	$ 4,452,245	$ 1,033,345	$ 10,876,930	$ 9,475,535	$ 7,259,123
Plan fiduciary net position as a percentage of total pension liability	83.87%	85.69%	92.25%	84.48%	90.88%	92.44%	98.35%	84.04%	87.10%	90.66%
Covered Payroll	$ 9,326,755	$ 9,096,836	$ 9,175,179	$ 9,491,816	$ 9,942,297	$ 10,214,144	$ 9,946,803	$ 11,567,166	$ 12,335,438	$ 12,512,476
Net pension liability as a percentage of covered payroll	74.13%	71.79%	40.74%	84.25%	51.17%	43.59%	10.39%	94.03%	76.82%	58.02%

City of Watauga, Texas
Schedule of Pension Contributions
Last Ten Fiscal Years

	Year Ended September 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Actuarially Determined Contribution	$ 1,194,583	$ 1,259,325	$ 1,274,565	$ 1,332,221	$ 1,459,430	$ 1,462,002	$ 1,653,540	$ 1,927,488	$ 2,000,175	$ 2,312,414
Contributions in relation to the actuarially determined contribution	1,194,583	1,259,325	1,274,565	1,332,221	1,459,430	1,462,002	1,653,540	1,927,488	2,000,175	2,312,414
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 9,040,337	$ 9,169,310	$ 9,351,625	$ 9,849,847	$ 10,293,449	$ 9,877,694	$ 10,990,394	$ 12,810,193	17,406,819	17,593,312
Contributions as a percentage of covered payroll	13.21%	13.73%	13.63%	13.53%	14.18%	14.80%	15.05%	15.05%	11.49%	13.14%

City of Watauga, Texas

Schedule of Pension Contributions - Continued
Last Ten Fiscal Years

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method Level	Level Percentage of Payroll, Closed
Remaining Amortization Period	21 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Other Information:	
Notes	Adopted 70% non-retroactive repeating COLA.

City of Watauga, Texas

Schedule of Changes in Total OPEB Liability and Related Ratios
Last Nine Measurement Years

Texas Municipal Retirement System - Supplemental Death Benefit Plan

	Year Ended December 31							
	2017	2018	2019	2020	2021	2022	2023	2024
Total OPEB Liability								
Service cost	$ 20,185	$ 24,679	$ 20,879	$ 27,578	$ 29,840	$ 37,015	$ 16,036	$ 18,769
Interest	14,766	15,283	16,178	15,117	13,122	12,955	20,533	20,445
Difference between expected and actual experience	-	(28,476)	(12,399)	(17,439)	(9,270)	40,065	(14,035)	(8,867)
Change in assumptions	36,678	(32,318)	88,671	86,019	20,923	(262,817)	26,937	(27,470)
Benefit payments, including refunds of employee contributions	(2,753)	(2,848)	(2,983)	(3,064)	(8,952)	(11,567)	(16,036)	(15,015)
Net change in total OPEB liability	68,876	(23,680)	110,346	108,211	45,663	(184,349)	33,435	(12,138)
Total OPEB liability, beginning	381,917	450,793	427,113	537,459	645,670	691,333	506,984	540,419
Total OPEB Liability, ending	$ 450,793	$ 427,113	$ 537,459	$ 645,670	691,333	506,984	540,419	528,281
Covered-employee Payroll	$ 9,175,179	$ 9,491,816	$ 9,942,297	$ 10,214,144	$ 9,946,803	$ 11,567,166	$ 12,335,438	$ 12,512,476
Total OPEB liability as a percentage of covered-employee payroll	4.91%	4.50%	5.41%	6.32%	6.95%	4.38%	4.38%	4.22%

City of Watauga, Texas Retiree Health Plan

	Year Ended December 31							
	2017	2018	2019	2020	2021	2022	2023	2024
Total OPEB Liability								
Service cost	$ 36,285	$ 41,530	$ 40,468	$ 45,223	$ 56,718	$ 90,373	$ 71,625	$ 63,701
Interest	35,912	34,038	37,486	27,887	22,931	19,864	37,811	24,816
Difference between expected and actual experience	-	(10,983)	(134,664)	10,060	65,854	(7,166)	(423,604)	(3,942)
Change in assumptions	49,341	(40,515)	101,448	86,582	(194,560)	(223,402)	43,282	(21,450)
Benefit payments, including refunds of employee contributions	(32,844)	(43,918)	(39,042)	(47,893)	(38,086)	(31,496)	(1,001)	-
Net change in total OPEB liability	88,694	(19,848)	5,696	121,859	(87,143)	(151,827)	(271,887)	63,125
Total OPEB liability, beginning	940,851	1,029,545	1,009,697	1,015,393	1,137,252	1,050,109	898,282	626,395
Total OPEB Liability, ending	$ 1,029,545	$ 1,009,697	$ 1,015,393	$ 1,137,252	$ 1,050,109	$ 898,282	$ 626,395	$ 689,520
Covered-employee Payroll	$ 9,013,440	$ 9,791,192	$ 9,769,698	$ 10,128,852	$ 9,931,940	11,558,577	12,283,308	10,842,790
Total OPEB liability as a percentage of covered-employee payroll	3.89%	3.89%	10.39%	11.23%	10.57%	7.77%	5.10%	6.36%

GASB 75, Paragraph 97, requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of December 31, 2024 - the period from January 1, 2024 - December 31, 2024.

Only seven years of data is presented in accordance with GASB 75 paragraph 245. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement. Additional years' information will be displayed as it becomes available."

There are no assets accumulated in a trust that meets the criteria for GASB codification P22.101 or P52.1010 to pay related benefits for the OPEB plans.

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Combining and Individual Fund Statements and Schedules

Non-Major Governmental Funds

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Watauga Economic Development Corporation (WEDC) Sales Tax Fund – to account for a quarter-cent sales tax increase, approved by voters, encourage the development and advance of City businesses, development and parks within the City.

Watauga Crime Control and Prevention Fund – to account for a half-cent sales tax increase approved by the voters to enhance law enforcement in Watauga.

Library Donation Fund – to account for public donations made to the City specifically for the benefit of the public library.

Municipal Court Security Fund – to account for a fee established in the 1997 Texas Legislative session to allow a $3 assessment on all court fines paid. This assessment allows municipalities to purchase security equipment such as surveillance cameras, bulletproof glass and bailiff costs for Municipal Court areas. In January 2020, SB346 increased this assessment to $4.90.

Municipal Court Technology Fund – to account for a fee established in the 1997 Texas legislative session to allow a $4 assessment on all court fines paid. This assessment allows municipalities to purchase and maintain technology equipment such as computer hardware and software for the benefit of the Municipal Court.

Municipal Court Truancy Fund – to account for a fee established and approved by City Council January 28, 2008 to allow a $5 assessment per misdemeanor offense. Fees are paid out of this fund to pay personnel costs of the Municipal Court Juvenile Case Manager.

Traffic Safety Fund – to account for civil or administrative penalties to no more than $75 and late penalties to no more than $25. Legislation passed by 80th Texas Legislature allowed a local government entity to use a photographic traffic signal enforcement system. Effective June 2019, legislation passed by the 86th Legislature, use of photographic traffic signal enforcement was banned. The City will use fund balance for the traffic safety programs until funds are exhausted.

Street Maintenance Sales Tax Fund – to account for a quarter-cent sales tax approved by voters on May 12, 2012 for an initial four years effective October 1, 2012 and reauthorized in May 2016. The purpose of the sales tax is to provide for the maintenance and repair of municipal streets in existence at the time of the vote. On January 1, 2021, this tax was abolished due to a ballot measure in November 2020, and no additional contributions will be made to this fund.

PEG Fund – to account for the expenditures for Public, Educational, and Government (PEG) Access programming is supported by the PEG fee that is assessed to each cable subscriber.

Jury Fees Fund – to account for a fee established in January 2020 with the passage of SB346. These fees are assessed at $0.10 upon conviction of any fine-only misdemeanor, including a parking or pedestrian offense. The fee is used to fund juror reimbursements and finance jury service.

Non-Major Governmental Funds

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Watauga Economic Development Corporation (WEDC) Construction Fund – to account for construction projects in and for the Economic Development Corporation.

City of Watauga, Texas
Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2025

	WEDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Municipal Court Truancy Fund
ASSETS						
Cash and cash equivalents	$ 2,837,400	$ 1,040,646	$ 82,136	$ 31,385	$ 145,042	$ 13,958
Investments	346,870	27,435	-	-	-	-
Account receivable	149,425	296,944	95	-	-	-
Prepaid items	450	-	-	-	-	-
TOTAL ASSETS	$ 3,334,145	$ 1,365,025	$ 82,231	$ 31,385	$ 145,042	$ 13,958
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	$ 29,115	$ 78,073	$ -	$ -	$ -	$ -
Accrued liabilities	6	37,301	-	1,302	-	1,064
Total liabilities	29,121	115,374	-	1,302	-	1,064
FUND BALANCES						
Prepaid items	450	-	-	-	-	-
Restricted:						
Capital acquisitions and contractual obligations	-	-	-	-	-	-
Culture and recreation	-	-	82,231	-	-	-
Economic development	3,304,574	-	-	-	-	-
Public works	-	-	-	-	-	-
Public safety	-	1,249,651	-	30,083	145,042	12,894
Total fund balances	3,305,024	1,249,651	82,231	30,083	145,042	12,894
TOTAL LIABILITIES AND FUND BALANCES	$ 3,334,145	$ 1,365,025	$ 82,231	$ 31,385	$ 145,042	$ 13,958

Traffic Safety Fund	Street Maintenance Sales Tax Fund	PEG Fund	WEDC Construction Fund	Jury Fees Fund	Total Non major Governmental Funds
$ 21,367	$ 5,657	$ 154,776	$ 45,975	$ 1,829	$ 4,380,171
-	-	-	-	-	374,305
-	980	6,483	-	-	453,927
-	-	-	-	-	450
$ 21,367	$ 6,637	$ 161,259	$ 45,975	$ 1,829	$ 5,208,853
$ -	$ -	$ -	$ -	$ -	$ 107,188
1,670	-	-	-	-	41,343
1,670	-	-	-	-	148,531
-	-	-	-	-	450
-	-	-	45,975	-	45,975
-	-	161,259	-	-	243,490
-	-	-	-	-	3,304,574
-	6,637	-	-	-	6,637
19,697	-	-	-	1,829	1,459,196
19,697	6,637	161,259	45,975	1,829	5,060,322
$ 21,367	$ 6,637	$ 161,259	$ 45,975	$ 1,829	$ 5,208,853

City of Watauga, Texas

Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Non-Major Governmental Funds
For the Fiscal Year Ended September 30, 2025

	WEDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund
REVENUES					
Taxes	$ 968,273	$ 1,921,007	$ -	$ -	$ -
Interest income	120,278	61,659	3,160	1,677	5,962
Miscellaneous	3,138	76,065	4,459	18,258	15,037
Total revenues	1,091,689	2,058,731	7,619	19,935	20,999
EXPENDITURES					
Current:					
Public safety	-	1,868,510	-	37,241	2,520
Culture and recreation	-	-	-	-	-
Economic development	88,892	-	-	-	-
Capital outlay	-	420,801	-	-	15,772
Debt Service					
Principal	-	34,307	-	-	-
Interest and other charges	-	8,284	-	-	-
Total expenditures	88,892	2,331,902	-	37,241	18,292
Excess (deficiency) of revenues over expenditures	1,002,797	(273,171)	7,619	(17,306)	2,707
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	(561,640)	(38,000)	-	-	-
Total other financing sources (uses)	(561,640)	(38,000)	-	-	-
Net change in fund balances	441,157	(311,171)	7,619	(17,306)	2,707
Fund Balance, beginning	2,863,867	1,560,822	74,612	47,389	142,335
FUND BALANCE, ending	$ 3,305,024	$ 1,249,651	$ 82,231	$ 30,083	$ 145,042

Municipal Court Truancy Fund	Traffic Safety Fund	Street Maintenance Sales Tax Fund	PEG Fund	WEDC Construction Fund	Jury Fees Fund	Total Non major Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ 2,889,280
1,333	60	-	5,714	2,088	-	201,931
19,414	-	-	19,016	-	366	155,753
20,747	60	-	24,730	2,088	366	3,246,964
42,143	-	-	-	-	-	1,950,414
-	-	-	-	9,020	-	9,020
-	-	-	-	-	-	88,892
-	-	-	-	81,181	-	517,754
-	-	-	-	-	-	34,307
-	-	-	-	-	-	8,284
42,143	-	-	-	90,201	-	2,608,671
(21,396)	60	-	24,730	(88,113)	366	638,293
-	-	-	-	100,000	-	100,000
-	-	-	-	-	-	(599,640)
-	-	-	-	100,000	-	(499,640)
(21,396)	60	-	24,730	11,887	366	138,653
34,290	19,637	6,637	136,529	34,088	1,463	4,921,669
$ 12,894	$ 19,697	$ 6,637	$ 161,259	$ 45,975	$ 1,829	$ 5,060,322

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
WEDC Sales Tax Special Revenue Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Taxes	$ 996,000	$ 968,273	$ (27,727)
Interest income	50,000	120,278	70,278
Miscellaneous	3,500	3,138	(362)
Total revenues	1,049,500	1,091,689	42,189
Expenditures			
Current:			
Economic development	139,600	88,892	50,708
Total expenditures	139,600	88,892	50,708
Excess of revenues over expenditures	909,900	1,002,797	92,897
Other financing uses			
Transfers out	(561,640)	(561,640)	-
Total other financing uses	(561,640)	(561,640)	-
Net change in fund balances	348,260	441,157	92,897
Fund balances, beginning of year	2,863,867	2,863,867	-
Fund balances, end of year	$ 3,212,127	$ 3,305,024	$ 92,897

City of Watauga, Texas

Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Watauga Crime Control and Prevention Special Revenue Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Taxes	$ 1,977,000	$ 1,921,007	$ (55,993)
Interest income	60,000	61,659	1,659
Miscellaneous	73,000	76,065	3,065
Total revenues	2,110,000	2,058,731	(51,269)
Expenditures			
Current:			
Public safety	2,189,750	1,868,510	321,240
Capital Outlay	460,750	420,801	39,949
Debt Service			
Principal	-	34,307	(34,307)
Interest	-	8,284	(8,284)
Total expenditures	2,650,500	2,331,902	318,598
Excess (deficiency) of revenues over expenditures	(540,500)	(273,171)	267,329
Other financing uses			
Transfers out	(38,000)	(38,000)	-
Total other financing uses	(38,000)	(38,000)	-
Net change in fund balances	(578,500)	(311,171)	267,329
Fund balances, beginning of year	1,560,822	1,560,822	-
Fund balances, end of year	$ 982,322	$ 1,249,651	$ 267,329

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Library Donation Special Revenue Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Interest income	$ 100	$ 3,160	$ 3,060
Miscellaneous	6,000	4,459	(1,541)
Total revenues	6,100	7,619	1,519
Expenditures			
Current:			
Culture and recreation	10,000	-	10,000
Total expenditures	10,000	-	10,000
Net change in fund balances	(3,900)	7,619	11,519
Fund balances, beginning of year	74,612	74,612	-
Fund balances, end of year	$ 70,712	$ 82,231	$ 11,519

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Municipal Court Security Special Revenue Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Interest income	$ 2,500	$ 1,677	$ (823)
Miscellaneous	15,000	18,258	3,258
Total revenues	17,500	19,935	2,435
Expenditures			
Current:			
Public safety	40,300	37,241	3,059
Total expenditures	40,300	37,241	3,059
Net change in fund balances	(22,800)	(17,306)	5,494
Fund balances, beginning of year	47,389	47,389	-
Fund balances, end of year	$ 24,589	$ 30,083	$ 5,494

City of Watauga, Texas

Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Municipal Court Technology Special Revenue Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Interest income	$ 5,000	$ 5,962	$ 962
Miscellaneous	15,000	15,037	37
Total revenues	20,000	20,999	999
Expenditures			
Current:			
Public safety	9,050	2,520	6,530
Capital outlay	24,100	15,772	8,328
Total expenditures	33,150	18,292	14,858
Net change in fund balances	(13,150)	2,707	15,857
Fund balances, beginning of year	142,335	142,335	-
Fund balances, end of year	$ 129,185	$ 145,042	$ 15,857

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Municipal Court Truancy Special Revenue Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Interest income	$ 3,000	$ 1,333	$ (1,667)
Miscellaneous	17,000	19,414	2,414
Total revenues	20,000	20,747	747
Expenditures			
Current:			
Public safety	41,900	42,143	(243)
Total expenditures	41,900	42,143	(243)
Net change in fund balances	(21,900)	(21,396)	504
Fund balances, beginning of year	34,290	34,290	-
Fund balances, end of year	$ 12,390	$ 12,894	$ 504

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Traffic Safety Special Revenue Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Interest income	$ -	$ 60	$ 60
Total revenues	-	60	60
Net change in fund balances	-	60	60
Fund balances, beginning of year	19,637	19,637	-
Fund balances, end of year	$ 19,637	$ 19,697	$ 60

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
PEG Special Revenue Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Interest income	$ 3,500	$ 5,714	$ 2,214
Miscellaneous	24,000	19,016	(4,984)
Total revenues	27,500	24,730	(2,770)
Expenditures			
Current:			
General government	10,000	-	10,000
Total expenditures	10,000	-	10,000
Net change in fund balances	17,500	24,730	7,230
Fund balances, beginning of year	136,529	136,529	-
Fund balances, end of year	$ 154,029	$ 161,259	$ 7,230

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Debt Service Fund
For the fiscal year ended September 30, 2025

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Taxes			
Property taxes	$ 4,425,000	$ 4,449,344	$ 24,344
Interest income	40,000	54,362	14,362
Total revenues	4,465,000	4,503,706	38,706
Expenditures			
Debt service			
Principal	3,530,000	3,540,000	(10,000)
Interest	1,024,444	1,011,807	12,637
Total expenditures	4,554,444	4,551,807	2,637
Excess of expenditures over revenues	(89,444)	(48,101)	41,343
Other financing sources			
Transfers in	150,000	150,000	-
Total other financing sources	150,000	150,000	-
Net change in fund balances	60,556	101,899	41,343
Fund balances, beginning of year	1,223,704	1,223,704	-
Fund balances, end of year	$ 1,284,260	$ 1,325,603	$ 41,343

Statistical Section (Unaudited)

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City of Watauga, Texas

Statistical Section (Unaudited)

This part of the City of Watauga's Annual Comprehensive Financial Report provides detailed information to help the reader better understand information presented within the financial statements, note disclosures, and required supplementary information and how they relate to the City's overall financial health.

Financial Trends ..... (Tables 1-4)

Contains trend information to aid the reader in understanding how the City's financial performance has changed over time.

Revenue Capacity ..... (Tables 5-10)

Contains information to help the reader assess the City's most significant local revenue sources, the property tax and water revenues.

Debt Capacity ..... (Tables 11-14)

Presents information to assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information ..... (Tables 15-16)

Offers information to help the reader understand the environment within which the City's financial activities take place.

Operating Information ..... (Tables 17-19)

Contains service and infrastructure data to help the reader understand how the City's financial report relates to the services the City provides and the activities it performs.

Unless otherwise noted, the information in these schedules is derived from the Annual Comprehensive Financial Reports for the relevant year.

City of Watauga, Texas **Table 1**

Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Governmental activities										
Net investment in capital assets	$ 36,945,402	$ 37,278,290	$ 38,660,904	$ 38,606,089	$ 39,121,348	$ 39,716,524	$ 42,373,991	$ 45,136,267	$ 47,627,375	$ 53,573,466
Restricted	3,833,368	4,620,450	4,457,373	4,779,207	5,158,484	5,296,207	4,861,148	5,094,023	6,035,931	6,282,499
Unrestricted	845,314	407,478	(371,133)	(725,644)	(752,288)	1,150,464	3,191,860	5,094,002	4,419,454	2,790,795
Total governmental activities net position	$ 41,624,084	$ 42,306,218	$ 42,747,144	$ 42,659,652	$ 43,527,544	$ 46,163,195	$ 50,426,999	$ 55,324,292	$ 58,082,760	$ 62,646,760
Business-type activities										
Net investment in capital assets	$ 24,344,617	$ 24,042,159	$ 23,944,294	$ 24,452,425	$ 27,276,699	$ 27,856,495	$ 28,356,187	$ 29,463,346	$ 30,263,233	$ 31,100,334
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	3,139,921	4,705,617	6,210,337	5,887,374	4,739,452	6,197,552	7,830,457	8,795,884	8,896,100	9,646,611
Total business-type activities net position	$ 27,484,538	$ 28,747,776	$ 30,154,631	$ 30,339,799	$ 32,016,151	$ 34,054,047	$ 36,186,644	$ 38,259,230	$ 39,159,333	$ 40,746,945
Primary government										
Net investment in capital assets	$ 61,290,019	$ 61,320,449	$ 62,605,198	$ 63,058,514	$ 66,398,047	$ 67,573,019	$ 70,730,178	$ 74,599,613	$ 77,890,608	$ 84,673,800
Restricted	3,833,368	4,620,450	4,457,373	4,779,207	5,158,484	5,296,207	4,861,148	5,094,023	6,035,931	6,282,499
Unrestricted	3,985,235	5,113,095	5,839,204	5,161,730	3,987,164	7,348,016	11,022,317	13,889,886	13,315,554	12,437,406
Total primary government net position	$ 69,108,622	$ 71,053,994	$ 72,901,775	$ 72,999,451	$ 75,543,695	$ 80,217,242	$ 86,613,643	$ 93,583,522	$ 97,242,093	$ 103,393,705

Source: Annual Comprehensive Financial Reports

City of Watauga, Texas **Table 2**

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Expenses										
Governmental activities:										
General government	$ 6,107,863	$ 3,522,986	$ 5,584,813	$ 4,985,534	$ 4,652,993	$ 4,384,354	$ 3,954,225	$ 4,738,734	$ 5,554,741	$ 6,660,463
Public Safety	6,029,558	5,845,630	5,808,608	9,178,932	9,534,209	9,136,711	9,772,773	11,970,532	11,695,377	12,217,296
Public Works	987,328	2,472,838	769,758	2,348,520	2,156,500	2,131,872	1,949,260	2,416,999	3,020,782	3,123,379
Economic Development	-	-	-	-	-	-	73,669	46,431	87,910	88,892
Culture and recreation	3,724,218	5,095,575	4,720,179	2,767,462	2,262,568	1,878,361	1,922,770	2,218,215	3,332,175	2,878,000
Interest on long-term debt	377,813	411,910	381,932	562,654	692,493	653,227	732,657	845,266	1,124,148	1,397,131
Total governmental activities expenses	17,226,780	17,348,939	17,265,290	19,843,102	19,298,763	18,184,525	18,405,354	22,236,177	24,815,133	26,365,161
Business-type activities:										
Water and Sewer	7,300,779	6,979,614	6,707,331	8,220,965	7,638,966	6,770,160	7,806,865	8,149,246	9,014,799	8,748,838
Drainage Utility	932,806	978,469	1,015,534	1,066,306	1,025,133	1,216,623	1,053,551	1,201,907	1,265,965	1,499,631
Total business-type activities expenses	8,233,585	7,958,083	7,722,865	9,287,271	8,664,099	7,986,783	8,860,416	9,351,153	10,280,764	10,248,469
Total primary government expenses	$ 25,460,365	$ 25,307,022	$ 24,988,155	$ 29,130,373	$ 27,962,862	$ 26,171,308	$ 27,265,770	$ 31,587,330	$ 35,095,897	$ 36,613,630
Program Revenues										
Governmental activities:										
Fees, Fines, and Charges for services:										
General Government	$ 131,200	$ 126,955	$ 177,819	$ 189,931	$ 189,446	$ 223,193	$ 243,817	$ 249,569	$ 329,765	$ 518,142
Public Safety	2,015,413	1,998,687	1,819,361	1,877,057	1,353,891	1,355,268	1,442,518	1,592,096	1,313,024	1,834,107
Public Works	634,100	612,106	909,678	654,129	686,961	1,033,937	1,035,540	1,150,123	1,254,863	1,140,764
Economic Development	-	-	-	-	-	-	250	2,813	4,500	3,138
Culture and recreation	274,796	261,019	252,208	236,478	83,982	90,036	159,928	225,182	352,302	443,698
Operating grants and contributions	35,537	16,111	38,350	22,240	852,735	848,051	609,979	2,648,020	988,651	2,714,716
Capital grants and contributions	-	-	-	-	156,855	-	-	-	-	-
Total governmental activities program revenues	3,091,046	3,014,878	3,197,416	2,979,835	3,323,870	3,550,485	3,492,032	5,867,803	4,243,105	6,654,565
Business-type activities:										
Charges for services:										
Water and Sewer	8,660,703	8,206,963	8,223,078	8,222,931	9,031,436	8,976,433	9,902,023	9,625,010	9,677,619	10,405,918
Drainage Utility	1,410,213	1,419,460	1,451,829	1,470,162	1,471,937	1,559,331	1,504,797	1,482,409	1,489,328	1,498,099
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	10,070,916	9,626,423	9,674,907	9,693,093	10,503,373	10,535,764	11,406,820	11,107,419	11,166,947	11,904,017
Total primary government program revenues	$ 13,161,962	$ 12,641,301	$ 12,872,323	$ 12,672,928	$ 13,827,243	$ 14,086,249	$ 14,898,852	$ 16,975,222	$ 15,410,052	$ 18,558,582
Net (expense)/revenue										
Government activities	$ (12,298,403)	$ (12,665,721)	$ (12,115,832)	$ (16,457,445)	$ (14,135,619)	$ (12,085,059)	$ (12,366,918)	$ (16,368,374)	$ (20,572,028)	$ (19,710,596)
Business-type activities	1,837,331	1,668,340	1,952,042	405,822	1,839,274	2,548,981	2,546,404	1,756,266	886,183	1,655,548
Total primary government net expense	$ (10,461,072)	$ (10,997,381)	$ (10,163,790)	$ (16,051,623)	$ (12,296,345)	$ (9,536,078)	$ (9,820,514)	$ (14,612,108)	$ (19,685,845)	$ (18,055,048)

Source: Annual Comprehensive Financial Reports

City of Watauga, Texas
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

Table 2
(continued)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net (Expense)/Revenue										
Governmental activities	$ (14,135,734)	$ (14,334,061)	$ (14,067,874)	$ (16,863,267)	$ (15,974,893)	$ (14,634,040)	$ (14,913,322)	$ (16,368,374)	$ (20,572,028)	$ (19,710,596)
Business-type activities	1,837,331	1,668,340	1,952,042	405,822	1,839,274	2,548,981	2,546,404	1,756,266	886,183	1,655,548
Total primary government net expense	$ (12,298,403)	$ (12,665,721)	$ (12,115,832)	$ (16,457,445)	$ (14,135,619)	$ (12,085,059)	$ (12,366,918)	$ (14,612,108)	$ (19,685,845)	$ (18,055,048)
General Revenues and Other										
Governmental activities:										
Taxes:										
Property taxes	$ 6,246,763	$ 7,022,618	$ 7,430,079	$ 8,033,015	$ 8,638,677	$ 8,926,186	$ 9,407,900	$ 10,178,602	$ 11,596,580	$ 12,100,466
Franchise taxes	1,114,190	1,003,842	925,895	989,642	881,836	6,306,657	817,374	904,123	840,843	824,333
Sales taxes	5,868,069	5,814,302	5,850,480	6,013,849	5,982,337	783,430	7,481,865	7,670,480	7,684,529	7,758,756
Penalties and Interest	32,295	39,561	35,044	39,218	45,597	43,240	42,467	53,396	49,195	64,170
Payments in lieu of taxes	370,897	457,222	497,961	479,086	503,500	503,500	502,600	514,000	503,000	561,000
Investment earnings	68,650	152,516	280,383	589,104	274,370	44,353	206,167	1,321,980	1,926,581	1,850,124
Miscellaneous	3,960	9,439	8,946	55,275	12,968	69,825	135,254	59,586	50,768	169,746
Transfers	453,897	516,695	543,961	576,586	503,500	592,500	583,499	563,500	679,000	946,001
Total governmental activities	14,158,721	15,016,195	15,572,749	16,775,775	16,842,785	17,269,691	19,177,126	21,265,667	23,330,496	24,274,596
Business-type activities:										
Investment earnings	43,863	103,443	222,974	353,387	305,578	78,637	145,849	867,337	692,920	878,065
Miscellaneous revenue	130	8,150	-	2,525	35,000	2,778	23,843	12,483	-	-
Transfers	(453,897)	(516,695)	(543,961)	(576,586)	(503,500)	(592,500)	(583,499)	(563,500)	(679,000)	(946,001)
Total business-type activities	(409,904)	(405,102)	(320,987)	(220,674)	(162,922)	(511,085)	(413,807)	316,320	13,920	(67,936)
Total primary government	$ 13,748,817	$ 14,611,093	$ 15,251,762	$ 16,555,101	$ 16,679,863	$ 16,758,606	$ 18,763,319	$ 21,581,987	$ 23,344,416	$ 24,206,660
Change in Net Position										
Governmental activities	$ 22,987	$ 682,134	$ 1,504,875	$ (87,492)	$ 867,892	$ 2,635,651	$ 4,263,804	$ 4,897,293	$ 2,758,468	$ 4,564,000
Business-type activities	1,427,427	1,263,238	1,631,055	185,148	1,676,352	2,037,896	2,132,597	2,072,586	900,103	1,587,612
Total primary government	$ 1,450,414	$ 1,945,372	$ 3,135,930	$ 97,656	$ 2,544,244	$ 4,673,547	$ 6,396,401	$ 6,969,879	$ 3,658,571	$ 6,151,612

Source: Annual Comprehensive Financial Reports

City of Watauga, Texas **Table 3**

Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
General Fund										
Non-spendable										
Inventories	$ 17,636	$ 20,440	$ 21,487	$ 20,776	$ 17,581	$ 17,542	$ 16,138	$ 21,799	$ 25,146	$ 20,494
Prepaid	184,729	20,491	8,651	80,547	7,579	6,454	23,201	28,242	14,082	16,117
Unassigned	5,274,387	4,490,902	4,541,421	4,317,018	5,314,204	7,011,165	8,364,124	9,061,214	9,550,912	9,409,816
Total general fund	$ 5,476,752	$ 4,531,833	$ 4,571,559	$ 4,418,341	$ 5,339,364	$ 7,035,161	$ 8,403,463	$ 9,111,255	$ 9,590,140	$ 9,446,427
All Other Governmental Funds										
Non-spendable										
Prepaid items	$ 6,766	$ 7,198	$ 10,265	$ 15,511	$ 2,115	$ 1,165	$ 1,165	$ 1,165	$ -	$ 450
Restricted										
Capital acquisitions and contractual obligations	8,578,094	5,919,345	10,908,618	10,576,461	11,585,784	11,287,523	14,296,410	21,155,135	21,299,491	28,536,486
Debt service	397,992	539,900	710,903	659,604	765,068	758,689	782,058	869,782	1,223,704	1,325,603
Culture and recreation	751,871	838,576	869,225	922,784	1,290,549	1,686,286	62,126	69,545	74,612	243,490
Economic development	-	-	-	-	-	-	1,732,091	2,294,389	2,863,867	3,304,574
Public Works	818,069	1,084,390	1,137,735	1,483,538	1,819,814	1,584,190	726,237	197,304	143,166	6,637
Public Safety	1,493,577	1,768,676	1,418,896	1,532,213	1,315,226	1,291,038	1,621,278	1,750,973	1,805,936	1,459,196
Total all other governmental funds	$ 12,046,369	$ 10,158,085	$ 15,055,642	$ 15,190,111	$ 16,778,556	$ 16,608,891	$ 19,221,365	$ 26,338,293	$ 27,410,776	$ 34,876,436

Source: Annual Comprehensive Financial Reports

City of Watauga, Texas **Table 4**

Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues										
Taxes and franchise fees	$ 13,263,260	$ 13,867,337	$ 14,235,932	$ 15,065,384	$ 15,549,931	$ 16,071,272	$ 17,758,254	$ 18,792,248	$ 20,109,378	$ 20,726,773
Licenses and permits	454,991	428,530	726,796	467,737	501,024	776,817	741,399	783,979	999,713	937,898
Charges for services	741,565	745,127	757,088	741,687	724,789	901,900	1,114,631	1,307,295	1,421,523	1,367,242
Fines and forfeitures	1,563,928	1,522,589	1,406,351	1,323,598	560,003	568,795	638,906	470,674	484,616	623,860
Intergovernmental	370,897	457,222	247,840	523,066	237,784	503,500	886,325	3,129,790	1,815,797	3,271,257
Interest income	59,651	139,237	497,961	479,086	660,355	40,232	195,999	1,246,029	1,486,763	1,769,409
Other revenues	364,976	314,273	337,048	453,439	1,409,741	1,272,469	740,450	607,123	557,941	992,163
Total revenues	$ 16,819,268	$ 17,474,315	$ 18,209,016	$ 19,053,997	$ 19,643,627	$ 20,134,985	$ 22,075,964	$ 26,337,138	$ 26,875,731	$ 29,688,602
Expenditures										
General government	$ 5,760,512	$ 5,870,276	$ 6,233,602	$ 6,575,902	$ 3,879,180	$ 3,921,341	$ 3,608,866	$ 4,136,855	$ 4,455,376	$ 5,303,161
Public Safety	5,464,615	5,750,992	5,660,947	6,171,464	8,941,173	8,761,417	9,786,168	11,809,426	10,911,546	11,395,630
Culture and Recreation	1,102,216	1,165,026	2,309,572	2,339,355	1,959,457	1,613,357	1,737,846	2,012,924	2,654,126	2,719,765
Economic Development	-	-	-	-	-	-	73,669	46,431	87,910	88,892
Public Works	2,041,848	2,114,393	1,034,613	853,455	740,246	859,341	719,354	964,489	1,703,624	1,137,966

City of Watauga, Texas **Table 4**
Changes in Fund Balances, Governmental Funds (continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Capital outlay	$ 2,203,694	$ 3,419,723	$ 2,897,996	$ 1,398,668	$ 3,026,567	$ 5,629,829	$ 3,750,012	$ 4,764,491	$ 5,045,935	$ 6,440,613
Debt service										
Principal	1,447,632	1,695,225	1,727,935	1,945,767	2,103,727	2,411,819	2,684,867	3,052,899	3,362,576	3,658,321
Interest	471,377	474,609	537,198	640,098	726,304	1,301,546	770,418	881,101	1,003,985	1,151,558
Total expenditures	18,491,894	20,490,244	20,401,863	19,924,709	21,376,654	24,498,650	23,131,200	27,668,616	29,225,078	31,895,906
Excess of revenues over (under) expenditures	(1,672,626)	(3,015,929)	(2,192,847)	(870,712)	(1,733,027)	(4,363,665)	(1,055,236)	(1,331,478)	(2,349,347)	(2,207,304)
Other Financing Sources (Uses)										
Proceeds from borrowing	5,885,000	-	6,780,000	425,000	3,360,000	4,540,000	4,385,000	8,820,000	3,545,000	8,740,000
Proceeds from refunding	-	-	-	-	-	575,000	-	-	-	-
Proceeds from right-to-use subscription assets	-	-	-	-	-	-	-	-	89,267	-
Premiums on GO Debt	193,580	-	306,169	24,877	221,495	271,297	177,512	322,698	152,448	228,251
Sale of Asset	55,785	16,031	-	-	-	-	-	-	-	-
Transfers in	696,379	892,793	795,870	544,489	985,470	1,013,284	2,386,378	1,456,027	1,213,510	1,808,640
Transfers out	(773,362)	(726,098)	(751,909)	(142,400)	(324,470)	(509,784)	(1,912,878)	(1,442,527)	(1,099,510)	(1,247,640)
Total other financing sources (uses)	6,057,382	182,726	7,130,130	851,966	4,242,495	5,889,797	5,036,012	9,156,198	3,900,715	9,529,251
Net change in fund balances	$ 4,384,756	$ (2,833,203)	$ 4,937,283	$ (18,746)	$ 2,509,468	$ 1,526,132	$ 3,980,776	$ 7,824,720	$ 1,551,368	$ 7,321,947
Debt service as a percentage of noncapital expenditures	11.8%	13.1%	13.4%	13.8%	15.4%	19.7%	17.8%	17.1%	17.8%	17.7%

Source: Annual Comprehensive Financial Reports

City of Watauga, Texas **Table 5**

Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Assessed (Appraised) Value			Less: Tax-Exempt	Total Taxable Assessed Value[a]	Total Direct Tax Rate
	Real Property	Personal Property	Total Market Value			
2016	$ 1,023,103,188	$ 62,537,180	$ 1,085,640,368	$ 108,372,567	$ 977,267,801	0.618718
2017	1,181,209,410	62,026,022	1,243,235,432	111,483,084	1,131,752,348	0.618411
2018	1,273,013,697	68,791,738	1,341,805,435	128,331,870	1,213,473,565	0.601788
2019	1,444,529,571	72,435,076	1,516,964,647	136,522,898	1,380,441,749	0.601788
2020	1,617,737,727	75,175,464	1,692,913,191	140,260,143	1,552,653,048	0.580500
2021	1,665,719,964	75,105,986	1,740,825,950	146,995,717	1,593,830,233	0.580404
2022	1,795,936,624	71,804,882	1,867,741,506	145,583,141	1,722,158,365	0.580400
2023	1,925,387,412	71,979,131	1,997,366,543	158,495,174	1,838,871,369	0.570200
2024	2,363,042,495	81,647,980	2,444,690,475	181,887,816	2,262,802,659	0.570200
2025	2,526,469,526	77,272,571	2,603,742,097	195,115,625	2,408,626,472	0.570200

Source: Tarrant Appraisal District (www.tad.org)

[a] Assessed (Appraised)value taken from September Certified tax roll provided by the Tarrant Appraisal District

City of Watauga, Texas **Table 6**

Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per $100 of assessed value)
(Unaudited)

	City Direct Rates			Overlapping Rates [a]						
Fiscal Year	M&O Rate	General Obligation Debt Service	Total Direct	Keller Ind School District	Birdville Ind School District	Tarrant County	Tarrant County Hospital	Tarrant County College	Combined Rates KISD	Combined Rates BISD
2016	0.440171	0.178547	0.618718	1.540000	1.453900	0.264000	0.227897	0.149500	2.800115	2.714015
2017	0.423017	0.195394	0.618411	1.520000	1.453900	0.254000	0.227897	0.144730	2.765038	2.698938
2018	0.419650	0.182138	0.601788	1.520000	1.453900	0.244000	0.224429	0.140060	2.730277	2.664177
2019	0.420628	0.181160	0.601788	1.510000	1.453900	0.234000	0.224429	0.136070	2.706287	2.650187
2020	0.405884	0.174616	0.580500	1.408300	1.383900	0.234000	0.224429	0.130170	2.577399	2.552999
2021	0.400696	0.179708	0.580404	1.394700	1.380300	0.234000	0.224429	0.130170	2.563703	2.549303
2022	0.395445	0.184955	0.580400	1.344000	1.338000	0.229000	0.224429	0.130170	2.507999	2.501999
2023	0.375187	0.195013	0.570200	1.272900	1.279800	0.224000	0.224429	0.130170	2.421699	2.428599
2024	0.359710	0.210490	0.570200	1.087500	1.203100	0.194500	0.194500	0.112170	2.158870	2.274470
2025	0.361051	0.209149	0.570200	1.085200	1.198300	0.187500	0.182500	0.112280	2.137680	2.250780

Source: Tarrant County Appraisal District - Tax Rates

Note: Rates for debt service are set based on each year's requirements.

[a] Overlapping rates are those of local and county governments that apply to property owners within the City of Watauga.

City of Watauga, Texas **Table 7**

Principal Property Tax Payers
Current Year and Nine Years Ago
(Unaudited)

	2025				2016		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value** a)	**Taxpayer**	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value** b)
KRG WATAUGA LLC	$ 32,619,639	1	1.41%	Inland Western Watauga LP	$ 32,772,354	1	2.14%
Watauga Towne Crossing LLC	27,685,000	2	1.20%	Watauga Towne Crossing LLC	24,390,298	2	1.59%
Park Vista OTM Harmony LP	19,224,698	3	0.83%	Brookwillow Watauga LLC	13,231,034	3	0.86%
Dayton Hudson Corp/Target Stores	14,869,830	4	0.64%	Park Vista Townhomes Etal	9,298,739	4	0.61%
Brookwillow Watauga LLC	14,300,000	5	0.62%	Dayton Hudson Corp	9,220,198	5	0.60%
Oncor Electric Delivery	13,621,449	7	0.59%	Oncor Electric Delivery	7,044,509	6	0.46%
Woodcrest Marketplace Lp	9,895,869	6	0.43%	TVR Management	6,195,886	9	0.40%
PS LPT Properties Investors	9,429,250	8	0.41%	Watauga All Storage	6,174,612	7	0.40%
FKH SFR Prop Co B-HLD LP	6,408,554	9	0.28%	Target Stores	5,646,843	8	0.37%
Watauga Association	5,400,000	10	0.23%	Southwestern Bell	4,954,493	10	0.32%
Total	$ 153,454,289		6.63%		$ 118,928,966		7.75%

Source: Tarrant Central Appraisal District
TAD.org ->reports->year->top taxpayers

NOTE:
a) Total taxable value including real and personal property for tax year 2024 (FY 2024-2025) is $2,314,719,086
b) Total taxable value including real and personal property for tax year 2015 (FY 2015-2016) is $981,049,931

City of Watauga, Texas **Table 8**

Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Taxes Levied for the Fiscal Year	Adjustments to Levy in Subsequent Years	Adjusted Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Actual Balance
				Amount	Percentage of Levy		Amount	Percentage of Levy	
2016	$ 6,261,312	$ -	$ 6,261,312	$ 6,216,717	99.25%	$ 37,644	$ 6,254,361	99.89%	$ 6,951
2017	7,023,037	-	7,023,037	6,969,596	99.67%	12,785	6,982,381	99.42%	40,656
2018	7,449,031	-	7,449,031	7,391,050	99.37%	38,708	7,429,758	99.74%	19,273
2019	8,058,938	-	8,058,938	7,994,311	99.30%	47,691	8,042,002	99.79%	16,936
2020	8,654,530	(29)	8,654,501	8,585,768	99.31%	45,766	8,631,534	99.73%	22,967
2021	8,919,782	(44)	8,919,738	8,870,951	99.56%	28,375	8,899,326	99.77%	20,412
2022	9,440,144	1,182	9,441,326	9,385,793	99.41%	10,733	9,396,526	99.53%	44,800
2023	10,210,420	4,569	10,214,989	10,140,690	99.27%	43,401	10,184,091	99.70%	30,898
2024	11,615,362	(19,219)	11,596,143	11,497,000	99.15%	52,850	11,549,850	99.60%	46,293
2025	12,095,240	-	12,095,240	11,983,653	99.08%	n/a	11,983,653	99.08%	111,587

Sources: Tarrant County Tax Office and Tarrant Appraisal District

City of Watauga, Texas **Table 9**

Water Revenue
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	*No of Customers	**Gallons Billed	***Water Revenue
2016	8,255	677,806,287	$ 4,491,891
2017	8,248	614,615,519	4,230,822
2018	8,281	683,681,464	4,564,691
2019	8,318	598,933,474	4,260,894
2020	8,328	659,975,682	4,898,617
2021	8,349	598,350,168	4,624,597
2022	8,362	678,224,413	5,353,882
2023	8,391	652,661,281	5,194,185
2024	8,420	636,018,236	5,079,543
2025	8.523	623,012,267	5,107,706

*Source: Table 18 - number of Water Consumers

**Source: Monthly E-mail sent by D. Defriese, Utility Billing Supervisor

***Source: Comparative Summary of Monthly Water Billings

City of Watauga, Texas **Table 10**

Principal Water Customers
As of September 30, 2025
(Unaudited)

Customer Name	Gallons Consumed (000)	Total	Dollars Billed	Total
Park Vista Townhomes	10,564	1.70%	$ 132,883	2.60%
North Pointe Nursing & Rehab	6,663	1.07%	46,302	0.91%
Denton Hwy. Laundromat	3,474	0.56%	24,301	0.48%
Watauga 5807 LLC	2,609	0.42%	18,331	0.36%
Brooks Crossing	1,961	0.31%	15,961	0.31%
Target Stores	1,406	0.23%	11,273	0.22%
Lifestyle Christianity	1,380	0.22%	9,853	0.19%
BISD 045-02	1,278	0.21%	9,148	0.18%
Watauga 377, LLC	1,246	0.20%	10,651	0.21%
Brookwillow Watauga, LLC	1,236	0.20%	8,862	0.17%
Top Ten Total	31,817	4.87%	$ 287,565	5.54%
City Total	652,661		5,194,185	

*Source: City of Watauga ERP consumption report

City of Watauga, Texas

Table 11

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

	Governmental Activities								Business-Type Activities							
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Tax Notes	Lease Payable	Subscription Payable	Sales Tax Revenue Bonds	Unamortized Bond Premium	Other Obligations	Water and Sewer Revenue Bonds	General Obligation Bonds	Certificates of Obligation	Lease Payable	Unamortized Bond Premium	Total Primary Government	Percentage of Personal Income [b]	Per Capita [b]
2016	$ 3,045,000	$ 14,120,000	$ -	$ -	$ -	$ -	$ 329,067	$ 502,847	$ -	$ -	$ 8,595,000	$ -	$ 351,403	$ 26,943,317	4.54%	1,142
2017	2,335,000	13,195,000	-	-	-	-	308,685	442,622	-	-	15,415,000	-	583,305	32,279,612	5.46%	1,332
2018	1,605,000	19,040,000	-	-	-	-	593,220	379,687	-	-	14,655,000	-	546,745	36,819,652	6.17%	1,559
2019	1,105,000	18,085,000	-	-	-	-	581,822	313,920	-	-	21,910,000	-	982,265	42,978,007	7.20%	1,820
2020	585,000	19,480,000	450,000	-	-	-	762,060	245,191	-	-	20,965,000	-	923,952	43,411,203	5.21%	1,826
2021	960,000	21,395,000	375,000	-	-	-	956,531	173,371	-	-	20,005,000	-	847,902	44,712,804	3.64%	1,881
2022	650,000	23,670,000	285,000	490,841	-	-	1,073,408	118,105	-	-	19,150,000	30,040	944,303	46,411,697	4.75%	1,953
2023	345,000	29,975,000	195,000	405,695	-	-	1,326,595	60,352	-	-	17,865,000	21,776	865,665	51,060,083	6.59%	2,148
2024	230,000	30,525,000	100,000	317,968	77,053	-	1,393,397	2,716	-	-	19,925,000	13,261	932,380	53,516,775	6.93%	2,260
2025	115,000	35,940,000	-	227,583	51,833	-	1,531,773	-	-	-	19,925,000	4,487	888,293	58,683,969	6.93%	2,260

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

[b] See Table 15 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year. See below for source data:

NCTCOG annual population estimates for population.

City of Watauga, Texas **Table 12**

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)

	Governmental Activities						Business-Type Activities							
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Lease Payable	Subscription Payable	Tax Notes	Unamortized Bond Premium	General Obligation Bonds	Certificates of Obligation	Lease Payable	Unamortized Bond Premium	Total Primary Government	Less: Amount[a] Restricted for Debt Service	Percentage of Actual Taxable Value[b] of Property	Per Capita[c]
2016	$ 3,045,000.0	$ 14,120,000.0	$ -	$ -	$ -	$ 329,067.0	$ -	$ 8,595,000.0	$ -	$ 351,403.0	$ 26,440,470.0	$ 374,859.0	2.67%	$ 1,120.4
2017	2,335,000	13,195,000	-	-	-	308,685	-	15,415,000	-	583,305	31,836,990	395,192	2.78%	1,314
2018	1,605,000	19,040,000	-	-	-	593,220	-	14,655,000	-	546,745	36,439,965	669,939	2.95%	1,543
2019	1,105,000	18,085,000	-	-	-	581,822	-	21,910,000	-	982,265	42,664,087	610,275	3.05%	1,807
2020	585,000	19,480,000	-	-	450,000	762,060	-	20,965,000	-	923,952	43,166,012	765,068	2.73%	1,816
2021	960,000	21,395,000	-	-	375,000	956,531	-	20,005,000	-	847,902	44,539,433	758,689	2.75%	1,874
2022	650,000	23,670,000	490,841	-	285,000	1,073,408	-	19,150,000	30,040	944,303	46,293,592	782,058	2.64%	1,948
2023	345,000	29,975,000	405,695	-	195,000	1,326,595	-	17,865,000	21,776	865,665	50,999,731	749,480	2.73%	2,128
2024	230,000	30,525,000	317,968	77,053	100,000	1,393,397	-	19,925,000	13,261	932,380	53,514,059	1,223,704	3.01%	2,234
2025	115,000	35,940,000	227,583	51,833	-	1,531,773	-	19,925,000	4,487	888,293	58,683,969	2,395,514	3.25%	2,456

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

[a] This is the amount restricted for debt service principal payments for the total primary government.

[b] See Table 5 for property value data.

[c] Population data can be found in Table 15

City of Watauga, Texas **Table 13**

Direct and Overlapping Governmental Activities Debt
Year Ended September 30, 2025
(Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable [a]	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Keller Independent School District	$ 736,234,989	2.76%	$ 20,320,086
Birdville Independent School District	621,060,000	7.66%	47,573,196
Tarrant County College District	569,915,000	0.66%	3,761,439
Tarrant County	345,130,000	0.66%	2,277,858
Tarrant County Hospital	440,020,000	0.66%	2,904,132
Subtotal, overlapping debt			76,836,711
City direct debt			37,866,189
Total direct and overlapping debt			$ 114,702,900

Sources: Debt outstanding data provided by each governmental unit.

[a] For percentage of debt applicable to City, data prepared by the Municipal Advisory Council of Texas.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Statistical. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

City of Watauga, Texas **Table 14**

Pledged-Revenue Coverage
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Water and Sewer Revenue Bonds						PDC Sales Tax Revenue Bonds[c]					
	Total Revenues[a]	Less: Operating Expenses[b]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	Total Revenues[a]	Less Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2016	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2017	-	-	-	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-	-	-	-
2019 [†]	-	-	-	-	-	-	-	-	-	-	-	-
2020 [†]	-	-	-	-	-	-	-	-	-	-	-	-
2021 [†]	-	-	-	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-	-	-	-	-

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Source: Annual Comprehensive Financial Reports and Official Statement

[a] Includes operating and non-operating revenues
[b] Excludes depreciation, amortization, interest expense and expenditures identified as capital
[c] Bonds are solely supported by a 1/2 cent sales tax approved at an election held in May, 1994 for the purpose of the City Parks and Recreation.
[d] In April, 2008, the City issued $2,430,000 in GO Refunding Bonds to refund $2,400,000 of outstanding Series 1996 Waterworks and Sewer System Revenue Bonds.
[e] In May, 2012, voters approved a reallocation of 1/4 cent sales tax to the Street Maintenance Fund for a period of 4 years, effective October 1, 2012. The fund balance in the PDC operating fund is sufficient to pay off the remainder of the bond.
[†] Final Debt Service payment made in FY2015 Parks Development Corporation name changed to Economic Development Corporation in FY2018-2019.

City of Watauga, Texas **Table 15**

Demographic and Economic Statistics
Last Ten Calendar Years
(Unaudited)

Year	Population(1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income(3)	Median Age(4)	School Enrollment(5)	Unemployment Rate(6)
2016	23,600	$ 593,469	$ 25,147	34.7	3,851	4.1%
2017	24,228	591,575	24,417	34.9	5,380	4.1%
2018	23,610	596,861	25,280	34.2	5,650	3.7%
2019	23,770	833,139	35,050	34.5	5,172	3.3%
2020	23,770	1,227,982	51,661	34.0	5,172	3.5%
2021	23,770	977,280	41,114	35.0	4,335	4.1%
2022	23,770	774,569	32,586	36.8	4,335	3.5%
2023	23,653	802,783	33,940	36.8	4,335	3.5%
2024	23,775	806,924	33,940	36.8	4,335	4.0%
2025	23,806	824,592	34,638	36.2	4,335	4.1%

Sources:

(1) NCTCOG annual population estimates

(2) 2016 - 2025 Personal Income is calculated by multiplying Population (1) by Per Capita Personal Income

(3) 2016 - 2019 based on www.incomebyzipcode.com . 2020 - 2025 Estimates from The Retail Coach

(4) 2016-2019 Median Age from 2010 Census, U.S. Census Bureau American Fact Finder and The Retail Coach 2020-2025

(5) School Enrollment provided by Birdville and Keller Independent School Districts

(6) Unemployment Rates from Texas Workforce Commission.

City of Watauga, Texas **Table 16**

Principal Employers

Current Year and Nine Years Ago

	2025			2016		
Employer	**Employees [1]**	**Rank**	**Percentage of Total City Employment[2]**	**Employees [1]**	**Rank**	**Percentage of Total City Employment [3]**
Birdville ISD	255	1	4.05%	195	2	3.44%
Target	288	2	4.58%	245	1	4.32%
City of Watauga	189	3	3.00%	190	3	3.35%
North Pointe Health & Rehab	74	4	1.18%	92	6	1.62%
Albertsons	85	5	1.35%	176	4	3.10%
Chilis	70	6	1.11%	52	10	0.92%
Keller ISD	68	7	1.08%	52	9	0.92%
Cotton Patch Café	54	8	0.86%	54	8	0.95%
Newman Academy	50	9	0.79%	-		0.00%
Fresco's	23	10	0.37%	60	7	1.06%
Harvest Christian				100	5	1.76%
Total	1,156		18.36%	1,216		21.42%

Source:

[1] For 2025, statistics provided by City of Watauga Economic Development Department. For 2015 used Sites on Texas, Survey of American City, City of Watauga ACFR 2015.

[2] For 2025, used NCTCOG 2017 estimates obtained from the Bureau of Economic Analysis and U.S. Census Bureau, analyzed by NCTCOG

[3] For 2016 City Employment obtained from Sites on Texas, Demographic data for 2007 by Experian /Applied Geographic Solutions

City of Watauga, Texas **Table 17**

Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
General Government and Administration	31.65	32.90	31.90	31.90	31.90	21.75	27.00	32.00	32.00	32.00
Public Safety										
Police Division	49.85	48.85	47.60	47.60	47.60	50.00	50.50	52.00	52.00	52.00
Fire/EMS Division	21.00	21.00	21.00	21.00	27.00	27.00	27.00	30.00	30.00	30.00
Culture and Recreational	8.50	8.50	8.50	8.50	8.50	3.00	4.25	5.25	9.50	10.00
Library	12.00	12.50	12.25	12.25	12.25	11.25	11.75	11.50	12.25	12.25
Water/Sewer/Drainage	33.25	33.25	32.25	32.25	32.25	28.25	29.00	31.00	32.00	33.00
Fleet Services	3.00	3.00	3.00	3.00	3.00	3.00	3.00	4.00	4.00	4.00
Building	7.00	7.00	7.00	7.00	7.00	7.00	7.00	8.00	8.00	8.00
Parks Development**	8.75	8.75	6.75	6.75	6.75	6.00	4.50	6.75	6.75	7.25
Total	175.00	175.75	170.25	170.25	176.25	157.25	164.00	180.50	186.50	188.50

Source: City Budget Office.

In 2015, decreased positions in Parks Development due to a shift to contract labor in the Parks Department
In FY2021, positions were reduced/frozen or unfunded to recover from expected revenue losses due to the COVID-19 pandemic
In FY2022, the City added positions as revenues increased due to economic recovery
In FY2023, the City added positions to continue to fund positions previously reduced or unfunded in 2021 as revenues increased due to economic recovery

City of Watauga, Texas **Table 18**

Operating Indicators by Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Police										
Calls for Service	8,279	10,464	9,247	10,543	10,046	9,246	8,801	8,719	11,000	9,200
Municipal Citations Issued	8,781	3,999	3,449	5,410	6,664	5,559	5,133	4,420	4,209	3,300
Fire/EMS										
EMS Calls	1,395	1,387	1,369	1,475	1,400	1,676	1,897	1,930	1,861	1,950
EMS Average Response Time (min)	3.47	3.50	3.50	3.46	4.14	4.16	4.19	4.35	4.32	4.32
Ambulance Transports	1,039	1,063	942	1,059	1,005	1,212	1,429	1,503	1,456	1,500
Fire Calls	759	730	863	707	686	910	857	842	934	950
Fire Average Response Time (min)	4.07	3.50	4.30	4.59	5.14	4.32	7.33	5.09	5.03	5.03
Fire Inspections	336	544	691	678	680	688	701	907	836	800
Public Works										
Lane Miles Maintained	88	88	88	88	88	88	88	88	88	88
Miles of Curb and gutter maintained	176	176	176	176	176	176	176	176	176	176
Parks and recreation										
Park Acres Maintained	119	119	119	119	119	119	120	120	120	88
Athletic Fields Maintained	10	10	10	10	10	10	12	12	12	12
Community Center Memberships	1,004	988	1,079	1,025	948	844	838	1,170	1,082	1,375
Program/Class/League Attendance	65,005	72,000	70,000	70,000	365	30,416	36,489	41,573	42,151	42,151
Library										
Number of Programs Offered	1,244	1,326	1,844	1,848	1,144	408	703	895	753	753
Number of School Visits	61	49	65	64	6	2	1	4	5	5
Number of Books in Collection	79,751	79,283	80,216	80,116	79,172	79,380	82,965	87,256	86,111	86,111
Number of Media in Collection	22,530	23,148	24,499	25,461	24,455	24,482	24,624	27,589	25,196	25,196
Electronic Format Materials	52	50	49	49	49	-	4,306	5,119	4,894	4,894
Ebooks & Audiobooks	23,765	21,733	22,793	30,169	30,408	29,424	31,662	36,740	37,536	37,536
Water and Sewer										
Number of Water Consumers	8,238	8,248	8,281	8,318	8,328	8,349	8,362	8,391	8,420	8,420
Average daily consumption (mil gal)	2.2	2.0	2.5	2.0	2.0	2.0	2.0	2.0	1.9	1.9
Amt of sewer line inspected (Linear Ft)	8,000	8,900	19,100	2,100	2,100	2,100	1,900	3,187	4,750	4,750

Sources: Various city departments.
Note: Indicators are not available for the general government function.

City of Watauga, Texas **Table 19**

Capital Assets by Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	16	16	16	16	16	16	16	16	16
Animal control facility	1	1	1	1	1	1	1	1	1	1
Fire stations	1	1	1	1	1	1	1	1	1	1
Public Works										
Streets (miles)	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Streetlights	703	703	703	781	781	781	781	781	781	781
Traffic signals	20	20	20	20	20	20	20	20	20	20
Parks and recreation										
Acreage (developed & undeveloped)[a]	124	124	124	124	124	124	124	124	124	124
Parks	10	10	10	9	9	9	9	9	9	9
Athletic fields	10	10	10	10	10	10	10	10	10	10
Senior centers	1	1	1	1	1	1	1	1	1	1
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	88.0	88.0	88.0	107.0	107.0	107.0	107.0	107.0	107.0	111.0
Fire hydrants	649	649	649	654	654	654	654	654	658	658
Storage capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Shared ground storage (owned by NRH)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Wastewater										
Storm sewers (miles)	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Sanitary sewers (miles)	85	85	85	85	85	85	85	85	85	85

Sources: Various city departments.

[a] In FY98 & FY99, sold 60 acres to large retail establishment

Federal Awards Section

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2821 West 7th Street, Suite 700
Fort Worth, Texas 76107
817-332-7905

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and City Council
City of Watauga, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 4, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 4, 2026

2821 West 7th Street, Suite 700
Fort Worth, Texas 76107
817-332-7905

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance As Required by Uniform Guidance

To the Honorable Mayor and City Council
City of Watauga, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2025. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 4, 2026

City of Watauga, Texas
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2025

I. Summary of the Auditor's Results:

Financial Statements

a. An unmodified opinion was issued on the financial statements.

b. Internal control over financial reporting:

Material weakness(es) identified? Reported	_____Yes	X No
Significant deficiency(ies) identified that are not considered a material weakness?	_____Yes	X None Reported

c. Noncompliance material to financial statements noted? _____Yes X No

Major Programs

d. Internal control over major programs:

Material weakness(es) identified?	_____Yes	X No
Significant deficiency (ies) identified that are not Considered a material weakness?	_____Yes	X None Reported

e. An unmodified opinion was issued on compliance for major Federal programs.

f. Any audit findings disclosed that were required to be reported in accordance with 2 CFR 200.516(a)? _____Yes X No

g. Identification of major program:

Program/Cluster Name	Federal Assistance Listing Number
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027

h. The dollar threshold used to distinguish between type A and type B programs. $1,000,000

i. Auditee qualified as a low-risk auditee? _____X Yes __No

City of Watauga, Texas
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2025

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

There were no matters reported

III. Findings and Questioned Costs for Federal Awards

There were no matters reported

City of Watauga, Texas
Summary of Prior Audit Findings
For the Year Ended September 30, 2025

IV. Summary of Prior Year Findings

There were no matters reported

City of Watauga, Texas

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2025

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF TREASURY			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	$ 2,296,789
Total U.S. Department of Treasury			2,296,789
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through Texas Department of Public Safety			
Bulletproof Vests	20.939	693JJ32540040	1,184
Total U.S. Department of Transportation			1,184
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through Tarrant County, Texas			
COVID-19 - Community Development Block Grant Program	14.218	#B-20-UW-48-0001	299,010
Total U.S. Department of Housing and Urban Development			299,010
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,596,983

City of Watauga, Texas
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2025

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting as described in Note 1 to the basic financial statements for the year ended September 30, 2025.

The City elected not to use the de minimis indirect cost rate as allowed in the Uniform Guidance, section 414.

Note 2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, the City provided no federal awards to subrecipients.

Note 4. Non-Cash Assistance

The City did not receive any non-cash assistance during the fiscal year ended September 30, 2025.

Note 5. Loans

At year-end, the City had no loans or loan guarantees outstanding with federal awarding agencies.